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ABSTRACT

This report of the Task Force on Jobs, Growth, and Competitiveness of the National Governors' Association is intended to serve as a blueprint for revitalizing the U.S. economy and creating new economic opportunity. The report presents a number of policy options for states to adapt to their own needs. Recommendations are based on the following goals: American productivity must be increased; the federal budget deficit must be reduced; equitable trade relationships must be established; and economic disparities across states and regions must be minimized so that all Americans can share in the new economy. To achieve these goals, a four-part plan or blueprint for economic opportunity is recommended: (1) develop productive workers; (2) create efficient workplaces; (3) support responsive communities; and (4) implement the federal action agenda. Within each of the four area, specific recommendations for state action are made, involving education for a technology-based economy, cooperation between education and business, economic and policy changes to facilitate the growth of American business, and changes in the federal-state partnership. (KM)

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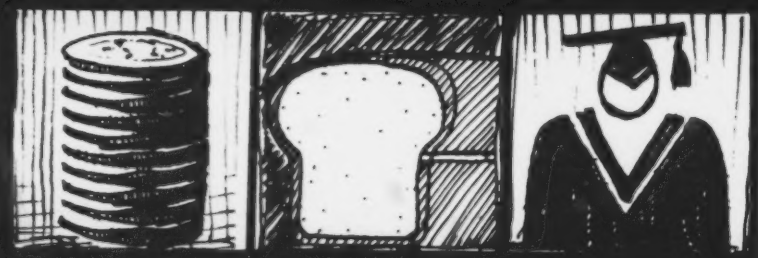

MAKING AMERICA WORK

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PRODUCTIVE
PEOPLE
PRODUCTIVE
POLICIES

JOBS, GROWTH & COMPETITIVENESS

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Productive
People,
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Policies

Chairman
Governor Bill Clinton

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National Governors' Association

The National Governors' Association, founded in 1908, represents the Governors of the fifty states, the Commonwealths of Puerto Rico and the Northern Mariana Islands, and the territories of the Virgin Islands, Guam, and American Samoa. Its mission is to influence the development and implementation of national policy and to apply creative leadership to state problems.

NGA membership is organized into seven standing committees in major substantive areas: Agriculture, Criminal Justice and Public Protection, Economic Development and Technological Innovation, Energy and Environment, Human Resources, International Trade and Foreign Relations, and Transportation, Commerce, and Communications. Special committees and task forces are formed in response to principal concerns of the Governors.

The Center for Policy Research serves as a vehicle for sharing knowledge of innovative programs among the states and provides technical assistance to Governors. The center manages a variety of federal grants and foundation-funded activities and state demonstration programs in areas that include education, economic development, labor market and occupational analysis, socioeconomic forecasting, health care financing alternatives, job training, and state human resources management systems.

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National Governors' Association
Hall of the States
444 North Capitol Street, Suite 250
Washington, D.C. 20001–1572
(202) 624-5300

CONTENTS

VI **CHAIRMAN'S OVERVIEW**
GOVERNOR BILL CLINTON

X **CHAIRMEN'S SUMMARY**
GOVERNOR TERRY E. BRANSTAD
GOVERNOR MICHAEL S. DUKAKIS
GOVERNOR GERALD L. BALILES

XVIII **MEMBERS OF THE TASK FORCES**

1 **CHAPTER ONE**
INTERNATIONAL COMPETITIVENESS:
CHALLENGES AND OPPORTUNITIES

9 **CHAPTER TWO**
A PRODUCTIVE WORKFORCE

31 **CHAPTER THREE**
EFFICIENT WORKPLACES

49 **CHAPTER FOUR**
RESPONSIVE COMMUNITIES

71 **CHAPTER FIVE**
THE FEDERAL AGENDA

79 **WORKS CONSULTED**

81 **ACKNOWLEDGEMENTS**

85 **ORDER FORM**

The Task Force on Jobs, Growth, and Competitiveness has spent this year looking at the important economic issues facing our states and our nation. Through hearings, through action-oriented information gathering, and through daily conversation with the people of America, the members of the task force have tried to focus on questions that often cross state lines and national borders.

Much of this report is built around state strategies designed to enhance our competitive position. The suggestions included here are policy options. States will want to adapt them to their own needs. The strategies and emphasis represent a broad consensus of the task force. They do not reflect the specific opinion or philosophy of any member. They are meant only as guidelines to prompt new ideas and innovative approaches.

CHAIRMEN'S SUMMARIES

MAKING AMERICA WORK

When I became chairman of the National Governors' Association in the summer of 1986, the Governors had been working hard for four years on education reform—one of the most fundamental issues of our time. Our association had just issued a report on what the Governors should be doing for the next five years to keep the reform bandwagon rolling and our schools improving. Yet I assumed the chairmanship with the haunting sense that, as critical as these efforts were, we could and should do more.

As important as our educational reforms are, they will not reach millions of Americans who face barriers that prevent them from taking full advantage of better schools or even from becoming productive citizens.

As important as it is to prepare our people to succeed in a highly competitive world, education alone will not guarantee them opportunities. They also need sound economic policies to provide good jobs.

Because we plainly have both people problems and economic policy problems that must be addressed before our efforts in education can bear full fruit, I asked the Governors to face our responsibilities in these areas. Not with more studies, but with action plans and programs.

I asked the chairmen of the committees on Economic Development, Trade, and Agriculture to co-chair an effort to develop solid strategies for state and regional economic development activities, to highlight successful programs, and to explore the extent to which programs in place in prosperous areas would or would not be likely to help more depressed regions. The report of the Task Force on Jobs, Growth, and Competitiveness is the result of the work that Iowa Governor Terry Branstad, Massachusetts Governor Michael S. Dukakis, and Virginia Governor Gerald Baliles directed.

I also established a welfare prevention project, composed of five task forces dealing with the most widespread and crippling barriers to productive lives in America today: welfare dependency, school dropouts, teen pregnancy, adult illiteracy, and alcohol and drug abuse. The plans developed by these task forces emphasize prevention and are designed to enhance the ability of our people to live up to their God-given capacities and in so doing to provide the critical contributions we need from them. I am grateful to Delaware Governor Michael N. Castle, Minnesota Governor Rudy Perpich, Illinois Governor James R. Thompson, Missouri Governor John Ashcroft, and Kentucky Governor Martha Layne Collins for their work in chairing these task forces. Their work is found in the "Bringing Down the Barriers" Report.

Together these two reports comprise the project "Making America Work: Productive People, Productive Policies."

MAKING THE CONNECTION

The job of governing any state in 1987 is defined in large measure by the economic realities of our time. Some states and regions

are doing well; some are not. Within each state, some people are doing well; some are not.

Clearly many of our present problems grow out of the painful truth that we were largely unprepared for the onslaught of global economic competition over the last decade and a half. Too many of us for too long took it for granted that America's position as the world's dominant economic power was permanent. Now we know better. Since 1973, median income has declined 17 percent. Forces of international competition have disrupted the equilibrium of our society and called into question President Kennedy's adage that "a rising tide lifts all boats." Between 1981 and 1986, while several million jobs were added to the economy, 40 percent of Americans suffered a decline in real income, 20 percent held steady, and 40 percent enjoyed an increase.

America has split in other ways as well. Prosperity has a distinctive geographic feature. It can be found largely in the states along the Atlantic and Pacific coasts and in certain urban areas in the heartland. Most of America's continuing economic distress is found in our deflation belt, in the states from Canada to the Gulf of Mexico with economies based on agriculture, energy, mining, timber, and import-vulnerable manufacturing.

There have been deep and troubling ruptures in the fabric of American society. In 1985, for the first time, the percentage of our elderly citizens living below the poverty line was smaller than the percentage of the non-elderly in poverty, a remarkable achievement for which our country can be proud. Unfortunately, this development was paralleled by a dramatic rise in the number of single-parent households, often headed by divorced women whose incomes dropped markedly after divorce; huge numbers of young women and children in poverty; millions of adults so illiterate and unskilled they are unemployable in today's economy; high rates of welfare dependency, teen pregnancy, school dropouts, and drug and alcohol abuse. The consequences of these developments can be seen most vividly in the swelling number of the homeless throughout America.

The news is, of course, not all bad. In the last six years our country has gained about 10 million new jobs, far more than our competition in Europe. There is evidence in virtually every state that more and more manufacturers have been willing to make the hard decisions necessary to increase productivity to internationally competitive levels. The results of the last few years of effort in education are paying off. Our schools are getting better. Our children are learning more.

Moreover, it is important for Governors to note too that many of our problems and some of our sectional prosperity are rooted in international economics and national politics and, therefore, are beyond the direct reach if not the influence of Governors. For example, much of our current trade deficit is a function of the depression in Latin American economies. If the growth rates of the 1970s had prevailed there last year, our trade imbalance would have been 19 percent less. The high dollar that prevailed

"America won't work if Americans can't work, or learn, or believe in the promise of tomorrow."

Bill Clinton
Governor of Arkansas

until late 1985 plainly worked to subsidize imports and tax our own exports. The dramatic increases in defense spending over the last several years have helped some state economies much more than others.

Still it is plain that Governors can and must do more to make America work by creating more opportunities from the ground up and by reversing the tide of lost human potential that prevents so many of our people from seizing opportunities when they arise.

MAKING A DIFFERENCE

The policy recommendations in these reports include many actions already successfully taken in some states. Not all of them will be appropriate or even possible for other states. But every state will find something of value in the reports, areas in which more can be done to speed the processes of economic transformation and human development which are critical to our future.

There is no one solution to all the issues dealt with in *Making America Work*, but there are some clear conclusions that any Governor, or any American, regardless of political party, will reach from reading it.

1

No matter what burdens or benefits the international economy or national policies may bring to states, practical problem solvers can do things to *reduce* the human loss from welfare dependency and other barriers to full development and to *accelerate* local economic growth.

2

It is, therefore, *unacceptable* in 1987 for any Governor to sit on the sidelines and avoid tackling these issues head on.

3

We do need some help from Washington, most immediately a good welfare reform bill and a sustained commitment to reduce the deficit.

4

While we learned the hard way that we in government cannot solve these problems alone, we have also learned we can't leave them alone. Partnerships with the private sector have enabled states to make progress in other areas. They are essential here, but Governors must take the initiative.

5

While citizens have a *right* to insist that the states move aggressively in these areas, they also have *responsibilities* to help the efforts succeed. The heart of our welfare reform proposal is the contract that conditions the right to benefits on the assumption of personal responsibility to pursue a path to independence, through education, training, and work. Similarly, local leaders have a right to expect the state to offer every available and affordable economic development initiative, but unless they assume responsibility for making something happen in their hometowns, the state's efforts will be to no avail.

I believe this model could be used to address other national problems. For example, we might increase rather than decrease student loans to college students, but require the students in return for the *right* to the loans, to assume the *responsibility* of spending a few hours each month teaching illiterate adults to read or doing other public service.

6

Welfare prevention and competitiveness, like education reform, are issues of *common interest* to all Americans because we cannot maintain our standard of living or perhaps even our security if we have more incapacitated or underutilized people than our competitors have. That's why investment bankers and defense contractors should care about distressed farmers and at-risk children. We're all in this together.

MAKING A COMMITMENT

I believe Americans are coming together on these issues because we want to preserve the American dream. And we know it cannot be done if we continue to behave as a swarm of isolated individuals oblivious to the pain and untapped potential of our fellow citizens.

When I was a small boy I was taught, like so many of my generation, that I had to get a good education and work hard so that I could do better than my parents and grandparents had done. Citizens of that time took the overall economic health and strength of America for granted and worked to make sure their children could benefit from it more than they had.

Today I want my daughter to get a good education not only for her own benefit, but for me and my generation as well. And I know we need her classmates, some of whom are from poor families, to do well too because the future of our great American experiment depends on it.

That is perhaps the fundamental lesson of our time: America won't work if Americans can't work, or learn, or believe in the promise of tomorrow.

In this 200th year of our Constitution, the Governors have a special responsibility to make America work. This report is designed to help them fulfill it.

Bill Clinton
Governor of Arkansas
Chairman
National Governors' Association

CHAIRMEN'S SUMMARY

The American states have reached sight of the 21st century confronted by a new economic reality.

Not since the founding days of our nation have the states been so exposed to the competitive forces of international commerce. Our economy has shifted from national insularity to global interdependence, and the results have affected all Americans. For some regions, shifting international markets have created new opportunities and meant real economic growth. However, not all regions have enjoyed such prosperity and regional disparities are reflected in the fact that the average wage of American workers, after adjusting for inflation, is declining and growth in our standard of living is level.

The states have a vital role in the quest to revitalize America's economy. As the nation's Governors, we have seen first hand the impact of the changes in the international economy—on unemployment, on farm foreclosures, on plant closings. Every day, in statehouses across the United States, Governors are taking action to reverse these trends, to ensure that our people, our businesses, and our communities have the opportunity to become competitive again. Marshalling our assets—skilled people, creative entrepreneurs, union leaders, determined farmers, imaginative researchers, educators, and local officials—the nation's Governors are getting results. From factory floor to small farm, from boardroom to schoolroom, states have championed new initiatives to prepare Americans for the global marketplace.

This report focuses on those initiatives. It is not an analysis of the nation's economic problems. Most of us know what the problems are. It is not a detailed prescription for federal policy. The solutions call for more than federal answers. The Governors understand that. This report provides a "Framework for Economic Opportunity," a blueprint for revitalizing America's economy and recreating economic opportunity. It is the result of a year-long examination of what states can do to make America more competitive.

The suggestions included in this report are policy options. States will want to adapt them to their own needs. While the strategies represent a broad consensus of the task force, they do not reflect the specific opinion or philosophy of any member.

The Task Force on Jobs, Growth, and Competitiveness has approached its work with a sense of urgency. We have tried to reach out to all parts of America. In developing our blueprint, we have talked to farmers, to workers, to small businessmen and women, to scientists. We learned a lot about how to make America work again. In Osceola, Iowa, we learned about the importance of community leadership in creating growth in small rural communities. In Cleveland, Ohio, we learned that cooperative relationships between labor and management depend upon workers acquiring new skills, and management adopting new attitudes. In Holmdel, New Jersey, we heard from scientists and corporate executives who described the need to build new bridges between business and academia.

But, above all else, we learned that in undertaking the enormous task of making our people and our policies more productive—we must, as Americans, work together.

Governors and other national leaders must begin the process of revitalizing America's economy by creating a new national consensus—a consensus that acknowledges a new economic reality, one of international economic interdependence. We must all begin thinking internationally from the way we educate our children, to the nature of the research we undertake, the type of products we develop, and the kind of public programs we enact.

GOALS FOR A COMPETITIVE ECONOMY

The nation must begin by adopting national competitiveness goals. These goals must be embraced by all Americans—business people, workers, farmers, and government leaders alike. The Governors are committed to these goals:

- ***American Productivity Must Be Increased.***

  Productivity growth has declined markedly during the post World-War II period from an annual rate of over 3 percent to less than 1 percent. To increase our productivity requires a highly skilled labor force, managers with a better understanding of the international marketplace and a willingness to make longer-term investments in their people, processes, and products. It also requires more scientists and engineers, and accelerated commercialization of new inventions.

- ***The Federal Budget Deficit Must Be Reduced.***

  The federal deficit reached $221 billion in 1986. A budget deficit of this magnitude increases interest rates, and distorts the value of the dollar, thus discriminating against U.S. exports in favor of foreign imports. The deficit must be eliminated over the next five years if U.S. goods and services are to compete effectively in the new world marketplace.

- ***Equitable Trade Relationships Must be Established.***

  During the post-war period, many foreign countries established trade barriers to protect their domestic economies. During the last two decades, these countries have strengthened their economies—often with the direct assistance of the United States, but have not dismantled these earlier protections. Some of our new competitors have also established national economic growth strategies based on aggressive

efforts to promote exports. The United States must demand, and work cooperatively to develop equitable trading relationships with all nations, both on a multilateral and bilateral basis.

- ***Economic Disparities Across States and Regions Must Be Minimized So That All Americans Can Share in the New Economy.***

  The U.S. economy cannot create jobs and increase the standard of living of all Americans unless all states and regions contribute to, and share in, the benefits of our new competitiveness. To do so, we must target investment into those depressed areas of our country. We are one nation interdependent and indivisible, and all must share the challenges and the rewards of a more productive society.

FRAMEWORK FOR ECONOMIC OPPORTUNITY

To achieve these national goals, the Governors propose a four-step "Framework for Economic Opportunity"—a blueprint for revitalizing America's economy. Specifically, we must:

- Develop productive workers.
- Create efficient workplaces.
- Support responsive communities.
- Implement the federal action agenda.

Governors and states can and are playing a major role in developing *productive workers, efficient workplaces,* and *responsive communities,* and it is that role that is the focus of this report.

Develop Productive Workers

The strength of the United States has always been its people. Nowhere has this been reflected more than in our workforce. Americans have worked hard, have educated themselves, and have shown the world what individual initiative and discipline can accomplish.

However, the 21st century worker will not be able to compete using 20th century skills. The "new American workforce" will have to be internationally aware, computer literate, adept in languages and mathematics, and, above all, versatile. Only then will we be able to turn economic potential into economic productivity.

The state role is critical in helping both the emerging and the current workforce become more productive and adjust to change. Because schools and universities are under the jurisdiction of state government, the state can directly influence the competency of the emerging workforce. Three-fourths of the citizens who will be working in the year 2000 are already in the labor force. Thus, it is the current labor force that is the key to increasing our productivity over the next two decades. These workers receive training primarily on the job. Here, the state role is to supplement the private sector.

Accordingly, states must promote a new educational ethic, reaching beyond youth to instill in all ages a new appreciation of learning. Using and developing existing resources—vocational training, community colleges, university instruction—states must work to provide lifetime learning opportunities.

To develop more productive workers, states can:

1

Build the Bridge Between the Classroom and the Marketplace. If we are to have a flexible, adaptable workforce, comfortable in a world of constant economic change, there must be a closer relationship between what students need to know to succeed and what they will be taught.

2

Increase the Quantity and Quality of Scientists and Engineers. A technology-based economy where innovation is the key to competitiveness requires a highly educated and trained labor force with an expanding pool of scientists and engineers.

3

Encourage the Private Sector to Invest in Training that Emphasizes the Broader Skills Necessary for a More Flexible Workforce. Collaboration with the private sector can help states sort out an appropriate balance between long-term investments in basic education and short-term, market-oriented training.

4

Re-orient State Training Programs to Reinforce State Economic Growth Strategies. State training investments increase the long-run productivity of the workforce. Targeting workers in small- and medium-sized firms with high growth potential increases economic competitiveness.

5

Increase the Efficiency of Worker Assistance Programs. It should be easier for workers to find jobs and for employers to find workers. Transitional assistance can accelerate the training and rapid reemployment of workers.

6

Develop Programs and Curricula to Improve International Understanding. To succeed in a global economy we must know our competitors. As the principal providers of education in the nation, states must invest in their schools and educational institutions to ensure their graduates will be able to compete successfully in the international arena.

Create Competitive Workplaces

The workplaces of tomorrow must produce high quality goods and services. Our ability to meet that goal is determined by thousands of decisions made by large corporations, self-employed entrepreneurs, farmers, and others, who decide what to buy, to sell, to export, and to build.

No level of government has or should have significant control over these decisions. Yet, governments do have influence over policy, regulation, and resources that affect the climate in which these decisions are made.

States are well-positioned to be active participants in making the private marketplace more efficient. We can influence the development and application of new technologies; the availability and affordability of capital and management assistance for small business development; the quality and depth of employee-employer relations and programs for employee involvement and ownership of businesses; and the tools and assistance available to American businesses in penetrating export markets.

To create competitive workplaces, states can:

1

Stimulate Technology Development by Fostering Close Linkages between the Research and Business Communities. The link between innovation and competitive workplaces is direct. States need to promote technology development in a manner consistent with their priorities, and establish working partnerships between educational and research institutions and businesses to focus and accelerate that research.

2

Increase the Rate of Technology Transfer by Disseminating Research and Development Information, Particularly to Small- and Medium-sized Firms. Rapid commercialization of technological breakthroughs will determine our future competitiveness in the world marketplace. The more states can do to accelerate the transfer of new technologies to the businesses upon which our economies are based, the more competitive our workplaces will be.

3

Encourage Labor Management Cooperation and Increased Employee Involvement in Decision Making. Employee-employer relations have a major effect on workplace productivity. When requested, states should assist employees and employers improve relations.

4

Promote State Exports by Helping Firms Identify and Expand International Markets. America can no longer stay competitive by trading with itself; it must expand its reach into the global marketplace. But many of our most promising exporters are small businesses lacking information on how to reach those markets. States can use their existing export programs as the base for comprehensive export assistance services designed to make all workplaces international traders.

5

Assist Entrepreneurs and Other Small- and Medium-sized Firms Obtain Financial and Technical Support. Access to financial and technical assistance is critical to business growth. States have a key role helping enterprises with growth potential obtain financing at competitive rates and terms. Financing for small businesses and firms in maturing industries is particularly important. To ensure that public financing is used effectively, states should provide technical assistance.

Support Responsive Communities

As the Governors criss-crossed the United States in developing their framework for opportunity, one consistent theme emerged: a community's ability to respond to changing economic conditions was a major difference between distress and prosperity. Time and time again, we saw examples of cities and towns that had the tools of leadership to withstand the short-term dislocations caused by large plant closings and turn that adversity into economic diversity.

States are the conduit through which many federal assistance programs—for roads and bridges, job training, community development and income support—are directed to local communities. States, therefore, have a unique opportunity to marshal these various resources into strategic grants that can ensure distressed and healthy communities an opportuntiy to plan for and adjust to economic change.

The state role is ultimately one of support—not control. It is the local communities—it is local leadership, both public and private—that will choose how to use the resources and assistance states can provide.

To help build responsive communities and stable economies, states can:

1

Support Community Diversification Through More Effective Direct Infrastructure Investment and Increased Community Access to Capital. Helping communities develop and maintain basic infrastructure—the building block of productive economies—is one of the most important state roles in developing responsive communities.

2

Promote Diversification Through Development of State Recreational, Park, Cultural, and Historical Resources. The development of natural resources is often the first step toward accelerating growth particularly for rural America.

3

Target State Resources to Help Distressed Communities and Communities of Opportunity. State information, technical assistance, training, and service delivery coordination should be a cornerstone of economic development programs, particularly in distressed communities.

4

Develop A Response Capability to Assist Communities and Workers Confronted by Dislocation. In an economy undergoing rapid change, states must be ready to help businesses and workers faced with dislocation.

Implement The Federal Action Agenda

The challenge ahead is clear. The states are ready to make the long-term investments necessary to make our workforce, workplaces, and communities more productive. It will take well-educated people who possess the wide range of skills to permit them to adapt easily to rapid economic change. It will take businesses that make long-term investments in technology and training, and partnerships with academia and government to make sure needed resources are available. It will take communities that make responsible investments in the infrastructure that supports businesses and helps them grow and compete.

In short, to meet the challenge of global competitiveness, America must make a national commitment to increase the productivity of every individual, business, and community in the nation. But states cannot do this alone. The federal government needs to provide a more predictable and certain economic framework, both domestic and international. To accomplish this goal, the federal government must:

1

Create a Fair and Stable Domestic Economic Environment. The federal government must begin by balancing the federal budget. Over the next five years, this deficit, that absorbs needed savings and contributes to high interest rates, must be eliminated.

2

Promote a Stable International Financial Framework. Uncertainty about exchange rates and the ability to repay international debt has been a deterrent to trade and a restraint on economic growth. The federal government can coordinate monetary and fiscal policies with our major trading partners and assist in managing the debt of less-developed countries.

3

Establish More Equitable Trade Relationships. The United States must have more access to export markets. Many countries established trade barriers after World War II to protect their domestic economies. Since then, these countries have strengthened their economies, but they have not dismantled these protections. Some of our new competitors have also established national eco-

nomic growth policies based on aggressive efforts. We need to promote exports. The United States must demand and work cooperatively to develop equitable trading relationships with all nations, both on a multilateral and bilateral basis.

4

Redefine the Federal/State Partnership. In this constantly changing world where the economic currents move quickly, federal and state governments need to redefine their roles. Federal and state governments can more efficiently promote increased exports, expedite technological innovation, create a flexible employment system, retrain our workforce, and provide managerial and financial assistance to our workplaces.

In the past fifteen years, every region of this country has witnessed a downturn in its economy. Less than ten years ago, basic manufacturing in the Northeast was in deep trouble. The timber industry in the Northwest was suffering. Today it is agriculture, mining, and oil in the West, South, and Midwest. Regional economic disparities raise problems not only for those who are directly affected, but for the entire nation, because as a united country, our economy as a whole suffers when any single region of our nation is not producing or sharing to the fullest extent possible. Funds could be more effectively targeted to the areas that can benefit most. Particular attention should be given to the development of a national rural development strategy.
Particular attention should be given to the development of a national rural development strategy.

Congress and the President must make competitiveness a top priority; decisive and comprehensive action is needed in areas ranging from restructuring labor market programs to improving the way information is shared with states.

A new federal-state partnership is needed that acknowledges the leadership of the states, calls for the joint planning and coordination of key domestic programs, and aims for the strategic use of limited public resources. The nation can no longer afford intergovernmental duplication, competition, and bureaucratic barriers.

THE CHALLENGE TO THE AMERICAN STATES

Two hundred years ago, the relationship between the states and the federal government was conceived in a spirit of compromise. In the intervening years, federalism has developed with no specific guidelines to follow. It has been left to mature in a rapidly changing world.

Our challenge—the challenge to the American states—is to rediscover the power that lies inherent within our system of government.

In the bicenntennial year of the United States Constitution, the American people must understand what the founding leadership always knew: that the structure of American government is not a static administrative arrangement; but a potentially dynamic means for forging collective action at all levels of government.

Now is the time to use those means to cultivate innovation and establish clear direction for a new competitiveness for America.

America works when government at all levels works together—and never has it been more critical that we do so. And never have the states been more willing to join that partnership and provide domestic leadership.

We have made a beginning. Governors are already implementing the "Framework for Economic Opportunity."

The state's initiatives are already contributing to a more resilient, and competitive U.S. economy. More needs to be done. Many of the potential state actions are summarized in this report—many others are possible. But the most important role for state government is to work aggressively to increase national productivity. Governors are committed to do this by developing more productive workers, creating competitive workplaces, and supporting responsive communities. They want to MAKE AMERICA WORK.

Terry E. Branstad
Governor of Iowa

Michael S. Dukakis
Governor of Massachusetts

Gerald L. Baliles
Governor of Virginia

TASK FORCE MEMBERS

TASK FORCE ON WELFARE PREVENTION

Chairman
Michael N. Castle
GOVERNOR OF DELAWARE

TASK FORCE MEMBERS

George Deukmejian
GOVERNOR OF CALIFORNIA

Michael S. Dukakis
GOVERNOR OF MASSACHUSETTS

William A. Allain
GOVERNOR OF MISSISSIPPI

John Ashcroft
GOVERNOR OF MISSOURI

Thomas H. Kean
GOVERNOR OF NEW JERSEY

Richard F. Celeste
GOVERNOR OF OHIO

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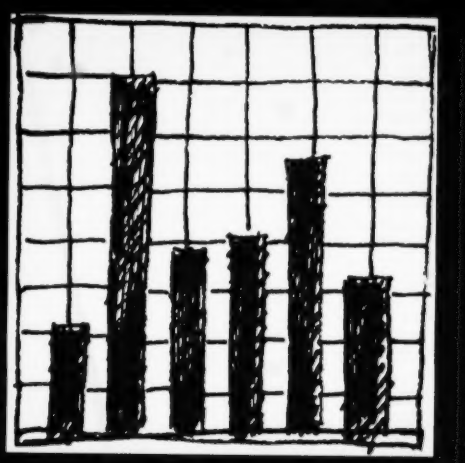


CHAPTER ONE
INTERNATIONAL COMPETITIVENESS: THE CHALLENGES AND OPPORTUNITIES

CHALLENGES AND OPPORTUNITIES

The United States has awakened to a new economic reality.

At the end of World War II, we were the only advanced industrial economy in the world. We were the principal supplier of agricultural and manufactured goods to most foreign markets, and to the largest consumer market in the world, our own. During the two decades following the war, the United States used its productive capacity to help rebuild the economies of Western Europe and to support the economic development of many Pacific Basin and Third World countries.

This outreach contributed to an unprecedented economic expansion at home that reinforced our expectations of continuous growth, of annual increases in the standard of living, and of global economic and political pre-eminence.

Abroad, it helped create a generation of new competitors able to meet many of their own market demands and to compete successfully for U.S. markets. Many of these competitors are resource-poor countries able to combine high technology, often from Japan or the United States, with low-cost labor. Equally important, many are pursuing national growth strategies based on maximizing exports.

The once predictable international marketplace has been transformed into an interdependent, and rapidly changing and uncertain market. Industries, regions, and communities that once thought they were insulated from the forces of change are now caught up in fierce competition—for jobs, for resources, for markets. Manufacturing workers find themselves victims of volatile exchange rates and the failure of some industries to stay on the cutting edge of technology. Farmers find themselves fighting to market their products in the face of falling commodity prices and shrinking foreign demand. Businesses find themselves competing for investment capital with the U.S. government's need to service an unprecedented federal budget deficit.

The competition we face today has not developed overnight. And it will take time to adjust to the new opportunities of the international economy. Many of our current problems reflect several decades of private and public sector decisions—decisions based on long-held assumptions that no longer serve our national economic interests.

We must now marshal our best resources—our people, our ideas, our knowledge, and our skills—to adjust to a new economic reality, and create opportunity for every American. The answer is not to put an end to competition, but to become a more effective competitor.

"Government can help open the doors for companies: we can bring people together; we can provide them with information, identify needs. In so doing, we can reduce the trade deficit, and create new jobs—good jobs—quality jobs.

Giving an industry time to modernize; opening up a closed market; helping small companies get into the export business; these are some of the things that we can do to build a competitive America.

The world may be changing. But the era of America's industrial leadership is far from over."

MICHAEL S. DUKAKIS
Governor of Massachusetts
Tufts University

"For many of us, it has been a time of great stress and a time of dramatic change. We cannot ignore the facts. In this decade, we have lost farms, banks, businesses and people. Those grim statistics represent the past. They do not have to reflect the future."

TERRY E. BRANSTAD
Governor of Iowa
1987 Condition of the State Message

OUR CHANGING COMPETITIVE POSITION

Competitiveness is a complex issue. But there are some indicators that can help us evaluate our changing position: our trade balance with other nations, for instance, and the real earnings and standard of living of our people. Taken together, these measures paint a portrait of a competitive decline that began as early as the 1970s.

The Trade Deficit. While the United States registered small merchandise trade deficits ten to fifteen years ago, it was not until 1983, when the deficit reached $69 billion, that there was cause for alarm. Since then, the deficit has more than doubled. The 1986 trade deficit jumped to $174 billion, up 17 percent from 1985. The deterioration in the U.S. trade position was most pronounced in manufactured products, which account for three-fourths of all recorded U.S. trade. In 1986, the United States registered the first deficit ever in high-technology manufactured products. The U. S. current account—the broadest measure of trade, incorporating investment income and business services—recorded a $141 billion deficit in 1986 after posting a surplus only five years ago.

Real Earnings. The real average weekly earnings of American workers peaked in 1973. By 1986, it had declined 17 percent. While there are obvious problems in making international wage comparisons, the Bureau of Labor Statistics currently estimates that total compensation of West German production workers is 20 percent above U.S. levels. Japanese wages, which were half those of workers in the United States two years ago, are now at about 80 percent of the U.S. levels.

Standard of Living. While trade statistics have received the most attention and have prompted the most concern, there are signs that the broadest and most meaningful indicator of competitiveness, the U.S. standard of living, has been stagnant. Our standard of living—family income, adjusted for inflation— would have declined substantially over the last decade had there not been significant increases in the number of families with two wage earners. In short, one reason we are keeping up is because we are working harder.

"Clearly, we are a nation under economic attack and unprepared for the rigors of international competition. And if we do not do something now to become competitive, the next generation will become the first in fifteen generations of Americans to inherit a standard of living lower than that of their parents.
Government alone cannot repair the nation's economy. Most of its problems can only be addressed by the private sector. But, government—and especially state government—has a vital role in helping solve the competition problem."

ROBERT D. ORR
Governor of Indiana
1987 State of the State Message

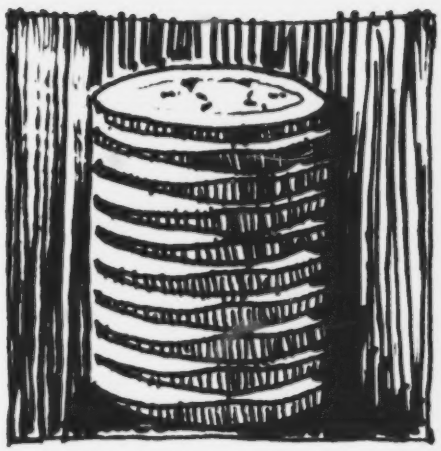
HOW DID WE GET HERE?

There are many reasons for the erosion of the U.S. competitive position, but most fall within three categories: slow productivity growth, increased federal budget deficit, and aggressive trade and economic policies of foreign competitors. They represent the basic issues we must address if we are to become effective competitors in the world marketplace.

Slow Productivity. Productivity growth in the United States has not been sufficient to offset the wage and other cost increases incorporated into the prices of U.S. goods. Since World War II, productivity growth has fallen consistently. The absolute productivity level of the United States remains one of the highest in the world. The once substantial advantage of U.S. producers, however, has narrowed considerably or disappeared altogether in such key sectors as steel, automobiles, machine tools, and semiconductors.

Many factors have contributed to the slowdown in U.S. productivity growth. Several can be easily identified. Others are more subtle. In many cases, the United States has not adequately educated its students. Tens of thousands of American adults are functionally illiterate and more than one-fourth of today's high school students drop out before graduation. The percentages are even higher among minorities. We have not always invested adequately in training our current workforce or in retraining dislocated workers.

Technology is critical to U.S. productivity, both as it is transferred into marketable products, and as it is incorporated into production processes. The United States continues to outspend other nations on research and development. However, both Japan and West Germany target a greater percentage of the gross national product (GNP) on civilian research and development than the United States. Most important, the United States does not translate its scientific breakthroughs into commercially successful products as effectively as its competitors.



The Federal Budget Deficit. The huge federal deficit is a major concern. It has mushroomed in recent years to $221 billion in 1986—5.3 percent of GNP. Current estimates set the 1987 deficit at $174 billion. Such large deficits decrease the availability of capital for business investment and increase its cost. The availability of capital at competitive costs is essential if we are to invest aggressively in new factories, research facilities, and automation. The United States is currently borrowing from abroad to obtain needed capital to service the budget deficit. This diverts foreign capital that might be used to purchase U.S. goods into servicing our federal budget deficit. Our large deficit has also increased the value of the dollar during the early 1980s, making U.S. exports more expensive and foreign imports cheaper.

Foreign Competitors. In the years following World War II, many foreign countries established barriers to imports of goods and services as part of their overall national economic development strategy. A number have maintained these barriers despite increased economic power, and have gone on to develop national policies to maximize exports to the large U.S. market.

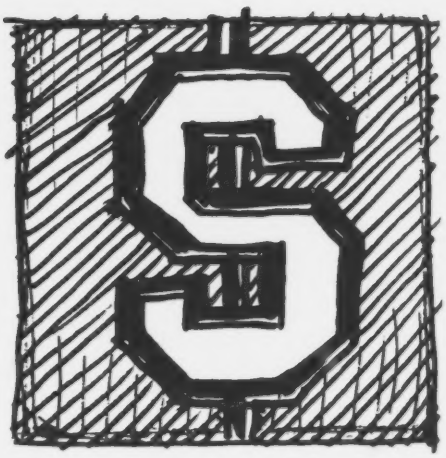
"Never in Virginia's history has change—in the form of new economic relationships, technology, and competition—rushed toward us at such an accelerated pace. We have quickly arrived within sight of the 21st century—and we can see a discernible outline of unprecedented challenge and unlimited opportunity ahead. But to achieve all of which we are capable, to realize our Commonwealth's nearly boundless potential, requires that we must deal with the competitive challenges of the new economic landscape."

GERALD L. BALILES
Governor of Virginia
1987 State of the Commonwealth Address

"We are in a struggle with the world—with tough, smart, competitors in Asia and western Europe—for the jobs of the future. The competition over prosperity is not of our choosing, but it cannot be avoided. The winner gains quality jobs, healthy businesses, strong communities and bright prospects for the 21st century."

JAMES J. BLANCHARD
Governor of Michigan
1987 Report to the People of Michigan and the Legislature

CHALLENGES AND OPPORTUNITIES



HOW CAN WE BENEFIT FROM THE NEW ECONOMIC REALITY?

The adjustments in the U.S. economy over the last several years have been difficult, but there are real reasons for optimism. American firms, businesses, and farms are becoming more efficient. This efficiency, coupled with the growing number of small, adaptable firms, and our entrepreneurial heritage, indicates that the U.S. will respond effectively with new technologies, new products, and new markets.

The U.S. economy can regain its competitiveness and its resilience. To set the economic framework for this resurgence, we must:

- Reduce the federal budget deficit.
- Establish more equitable trade relationships.
- Minimize the economic disparities across our states and regions.
- Increase productivity.

The federal government, of course, has the primary responsibility for reducing the budget deficit and concluding equitable trade relationships. These actions are critical. They provide the economic environment for improvements in international trade, and thus economic growth. Minimizing economic disparities across regions can only be attained by a true partnership between the federal, state, and local governments.

Even if the federal government eliminated the budget deficit tomorrow and assured equal access to international markets, we still would have not addressed the most crucial problem we face: increasing the productivity of every individual, business, and community in the nation. It is here that the states can take the lead.

A more productive economy will require more *productive workers*, more *efficient workplaces*, and more *responsive communities*. These three groups make thousands of individual decisions each day that hold the key to our future economic vitality. It is the state's role in these decisions and in the support of these groups that forms the background for the discussions and policy options presented in this report.

STATES: CREATIVE AND FLEXIBLE LEADERSHIP

How can the states help our workers, our workplaces, and our communities develop the flexibility, adaptability, and responsiveness required to turn economic challenge into opportunity?

The states have a unique role in the quest to revitalize America's economy. State governments are large enough to offer a broad range of services, yet they can tailor their assistance to specific challenges and opportunities. And because of their day-to-day contact with citizens and communities, states can be especially responsive, anticipating and supporting change.

States are already at work in the quest for a more productive America. They are leading; they are providing the impetus for change; they are making the investments, and coordinating the polices and programs that will be needed to help workers, workplaces, and communities renew their competitiveness.

The states have been laboratories for change and experimentation in our country. Increasingly, the impetus for domestic policy is coming from the states. They have been on the front line in developing, implementing, and adapting the policies needed to respond to the new economic reality. States have already developed many successful prototypes of new public and private partnerships, harbingers of future cooperation and innovation.

But there is more we can do. To help our nation and our people become strong competitors, we should:

■ ***Build a National Awareness That We Now Live in a Global Economy.*** We must maintain an international perspective in all decisions, ranging from how we market our goods to how we educate our children.

"All of us in government, business, and universities probably know fifty thousand things that won't make our economy more competitive. But by now we know some things that do work. We must nurture our vital new industries so they can produce the jobs of the future. We must help our older industries into the new century with the latest in technology. We must prepare our people for the future through better schools and creative retraining programs. We must communicate better—all of us, government, industry, and academia. And we must never forget that we must work hard to make America Number One."

THOMAS H. KEAN
Governor of New Jersey
1988 NGA Workshop on Technology

■ ***Invest Effectively in Education, Job Training, Infrastructure, and Research and Development.*** We must invest our limited resources in those programs that provide for the greatest long-run contribution to productivity and growth.

■ ***Help Citizens, Employers, and Communities Anticipate Change and Take Advantage of New Opportunities.*** We must develop, translate, and disseminate information on potential export markets, new jobs, and new technologies.

■ ***Break Down Bureaucratic Rigidities in State Institutions and Programs.*** We must make state government more adaptable, flexible, and responsive.

■ ***Tailor State Services to the Needs of Workers, Workplaces, and Communities.*** We must continue to develop public/private partnerships as a critical avenue to attain this goal.

This report contains many suggestions for both public and private action and cooperation. It identifies a number of policy options.

The next three chapters contain possible state action items designed to help create and support *productive workers, efficient workplaces,* and *responsive communities.* Recommendations for changes in federal policy are included in Chapter Five.

There is no one course. We have provided a variety of suggestions. The details of each state's and each region's economic strategy will differ to reflect individual needs, resources, and goals. But whatever the approach or the strategy, all states share a common goal: We must help our citizens meet the challenges and benefit from the opportunities of a changing world economy.

CHAPTER TWO
A PRODUCTIVE WORKFORCE

A PRODUCTIVE WORKFORCE

The foundation of America's economic prosperity is its workforce.

Our economy has been built by our people: researchers unlocking the secrets of new technology for the marketplace; managers finding new ways to marshal human and capital resources; workers putting machine and manufacturing know-how together to produce a better product; farmers using scientific advances to increase America's ability to feed a hungry world.

Today, the American worker is being buffeted by unprecedented change. New technology is demanding new skills, new products, new priorities. Workers are being asked to compete in a job market that increasingly emphasizes technical skills, creativity, and flexibility. The old rules are giving way to new demands, forcing fundamental changes in the way we do business and in the workforce that we educate and employ.

If we are to compete in the global arena, we must recognize these changes and plan for them.

First, we must acknowledge that our competitors are moving into world markets, successfully competing to supply those goods and services that we do not effectively market.

Second, we must recognize that production is occurring on a global scale. A product may be designed in one country, manufactured in another, assembled in a third, and then sold throughout the world. Increasingly, the cost of, and access to, capital, labor, raw materials, technology, and knowledge will determine production sites.

Third, we must understand that interdependence is increasing the mobility of manufacturing facilities across national borders, accelerating economic change, and intensifying competition.

"We live in a world economy, as well as a national economy. We see factories leaving, and we see products coming back more cheaply. We see high-paying jobs disappearing from mass production facilities. We see the shift to high technology with lower wages and many people aren't prepared to accept those jobs. . . . Our standard of living, our quality of life, our status as a leader in this world all depend on our ability to meet the dramatic challenges faced by the changing world economy."

BOOTH GARDNER
Governor of Washington
1985 State of the State Message

The New American Workforce

A new American worker must emerge, one who can adapt to the changes and turbulence of an international economy, and who can lead us into the 21st century.

We need workers whose basic skills, including communication and computation, are sufficiently broad to operate a wide range of production equipment, to shift tasks as production methods and customers' needs dictate, and to contribute ideas on how products and manufacturing can be improved.

We need specialists whose knowledge of engineering and related sciences enables them to create highly flexible systems—and we need more of them than we have today.

We need managers whose understanding of marketing, foreign languages, and business practices will allow them to seek out new customers throughout the world, and to craft products and services for foreign markets.

We need workers, supervisors, and managers, who are prepared for changes that may require them to move from task to task, job to job, company to company, and career to career—not just once or twice but many times during their working lives.

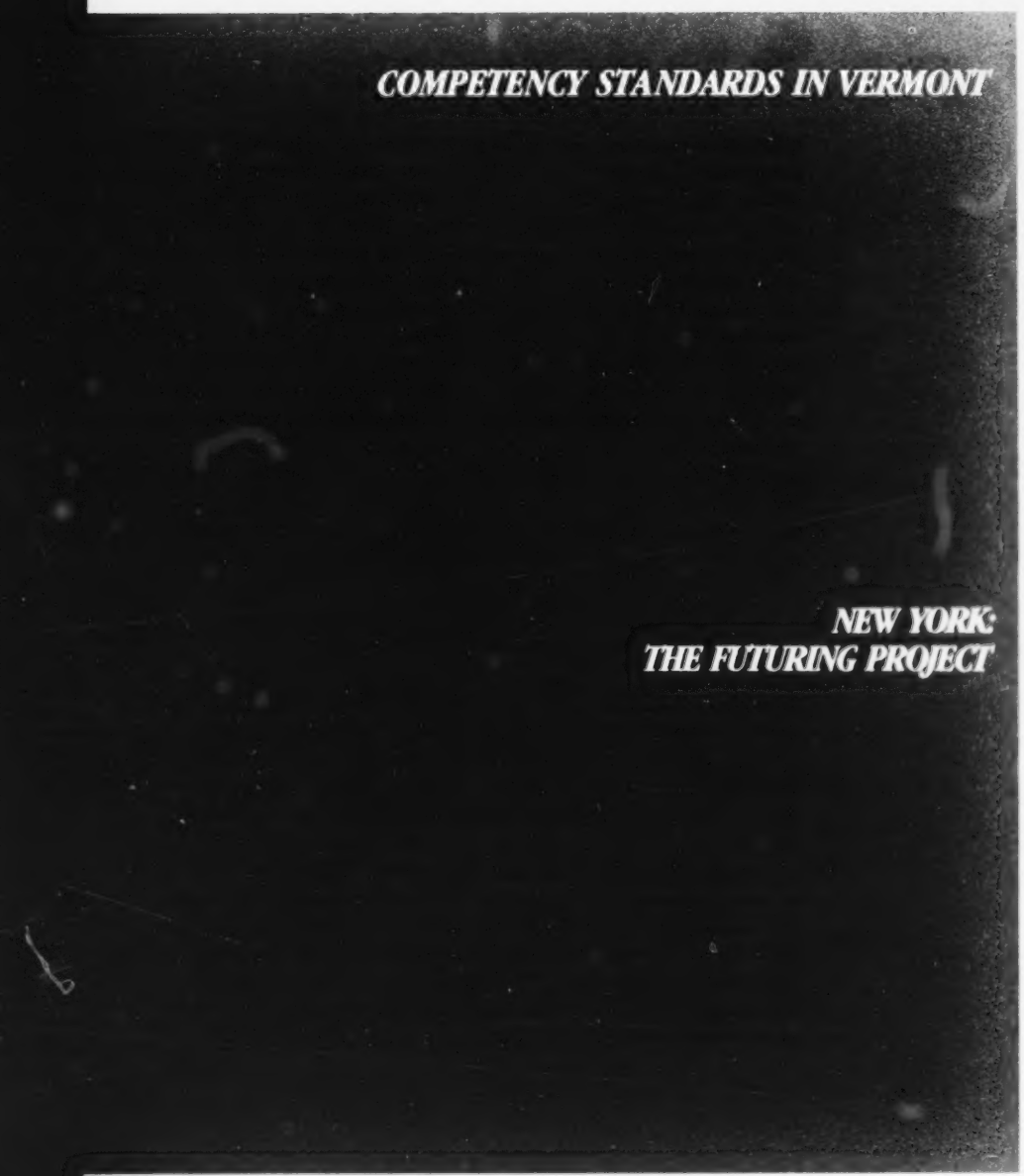
We are already making investments in the new American worker. Our total education and training investment in 1985 was $453 billion. Forty-two percent of this came from state government to support public elementary, secondary, and post-secondary education. But learning cannot, and does not, stop at the schoolroom door. Education, training, and retraining are part of a continuum. There are no precise milestones to mark them. Much depends on the knowledge base of the individual and on the specific workplace situation.

It is training that often determines lifelong earnings, and provides the skills for two out of three jobs. The bulk of training—as much as 60 percent—occurs at the workplace. Almost one-fifth of non-workplace training takes place in two-year colleges and technical institutes, with four-year colleges and universities providing more than one-third.

Skilled and productive workers are the economic linchpin of our efforts to reassert competitive leadership. We must address their needs and develop new strategies to increase their productivity. Specifically, we must:

- Improve the basic competence of the emerging workforce.
- Facilitate the training of scientists and engineers.
- Foster continuous development of the current labor force.
- Increase the efficiency of our labor markets.
- Heighten our understanding of global interdependence.

The challenge to the states is immediate: we must act now to address the education and training needs of both our emerging workforce and our current workforce and to remove barriers to mobility.



THE EMERGING WORKFORCE

It is increasingly clear that our ability to compete tomorrow depends, in large part, upon the education of our children today.

The nation's Governors have waged an aggressive campaign to change the way we educate America's children. Combining innovative ideas with tougher standards, the states are investing heavily in primary, secondary, and postsecondary education.

In 1986, the National Governors' Association published *Time for Results*, a major report on public education which recommended the adoption of fewer prescriptive state laws and regulations. Instead, it urged states to articulate clear educational expectations, and then hold schools, colleges, and universities accountable for their performance. These recommendations have already had a marked effect on the national educational debate, and sparked a wave of state education innovations. States need to implement these recommendations.

Not all new entrants to the workplace come straight from the schoolroom. Immigrants and homemakers, entering the labor market for the first time or after a long absence, welfare recipients and the economically disadvantaged often rely on other programs and institutions for their education and training. There are also many second chance programs for these individuals that are not part of the public school system. All of these additional programs are vital components of our education and training system and must be used effectively by states.

We must now go a step further—to ensure that schools understand employers' expectations, that graduates have the skills required to get a job, and that employers have a competent and well-trained workforce. Classroom, boardroom, and shop floor must agree on these expectations.

STATE STRATEGY

Build the Bridge Between the Classroom and the Marketplace.

If we are to have a flexible, adaptable workforce, comfortable in a world of constant economic change, there must be a better understanding of what students need to know to succeed and what they will be taught.

Those states working to build the bridge between the classroom and the workplace may find the following process useful:

- ***Establish an Ongoing Forum Which Includes Representatives of Labor, Business, Education, and Local Government to Develop Common Goals, Expectations, and Information.***

- ***Devise Tests and Assessment Tools to Measure the Knowledge of Students.*** Evaluate their effectiveness in relation to actual job performance.

TIME FOR RESULTS: INDIANA, SOUTH CAROLINA, GEORGIA, IOWA

MICHIGAN: EMPLOYABILITY STANDARDS

■ ***Notify the Education and Training Communities.*** States should notify those providing education and training services that these measures may be used in evaluating their performance.

■ ***Provide Information to Students.*** It is important that students understand the testing and assessment process and have relevant instruction materials to prepare for those evaluations.

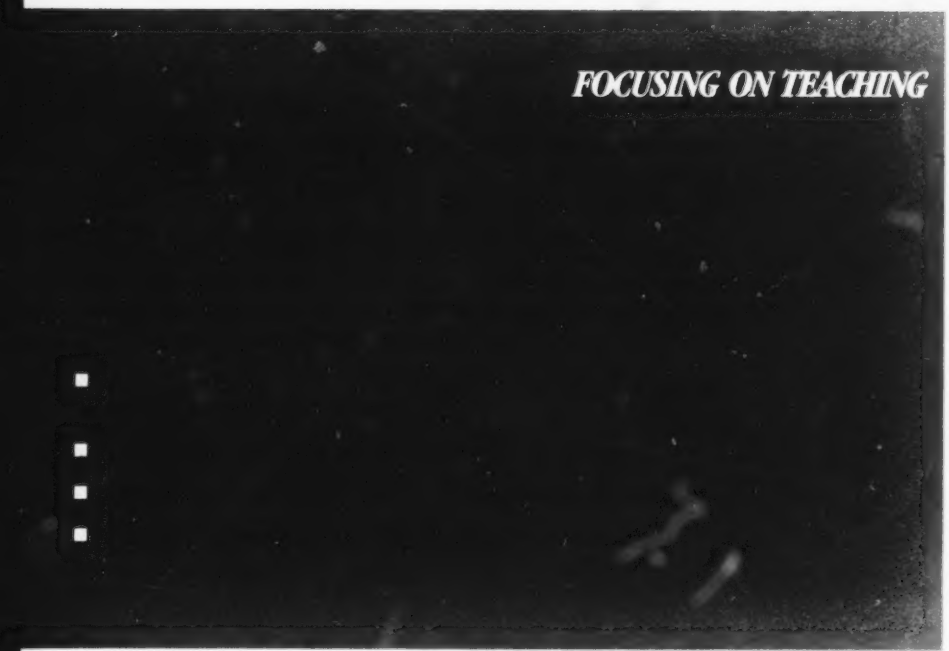
"Today's students will be adults when this century turns into the next millium in the year 2000, and they must be equipped with a good basic education. The basics of reading, writing, arithmetic, and respect—the ultimate vocation courses, will be the survival skills in an increasingly specialized world."

JAMES G. MARTIN
Governor of North Carolina
Inaugural Address

SCIENTISTS AND ENGINEERS

Time for Results recognized the need to ensure that sufficient numbers of qualified teachers will be available to teach our youth, but we must also be concerned with the number of graduates who have specific scientific and technical skills. In many cases, these highly skilled workers will hold the key to our economic future.

A National Science Foundation study in 1987 found that job opportunities for scientists and engineers increased three times faster than total U. S. employment and twice as fast as total professional employment during the last decade. Although there has been a 60 percent increase in scientists and engineers engaged in industrial research, we are still not graduating enough engineers to meet the growing demand. U.S. colleges and universities currently award science and engineering degrees to a smaller fraction of graduating classes than they did in the 1960s. Fewer college graduates are going on to pursue advanced degrees. Moreover, the effects of post-baby boom demographic shifts have resulted in a drop in the number of potential students who could seek advanced degrees. This decline will continue into the next century. Just to maintain the status quo will require a 50 percent increase in the proportion of undergraduates attracted to science and engineering, and the trends are not encouraging.



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STATE STRATEGY

Increase the Quantity and Quality of Scientists and Engineers.

A technology-based economy where innovation is the key to competitiveness requires a highly educated and trained labor force with an expanding pool of scientists and engineers.

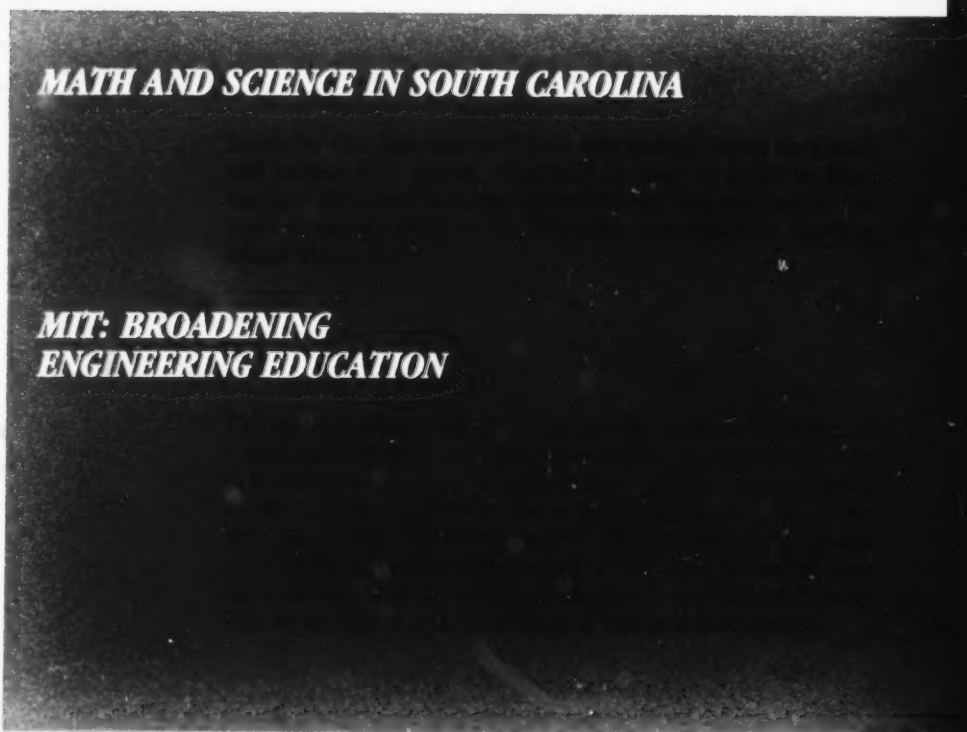
States can:

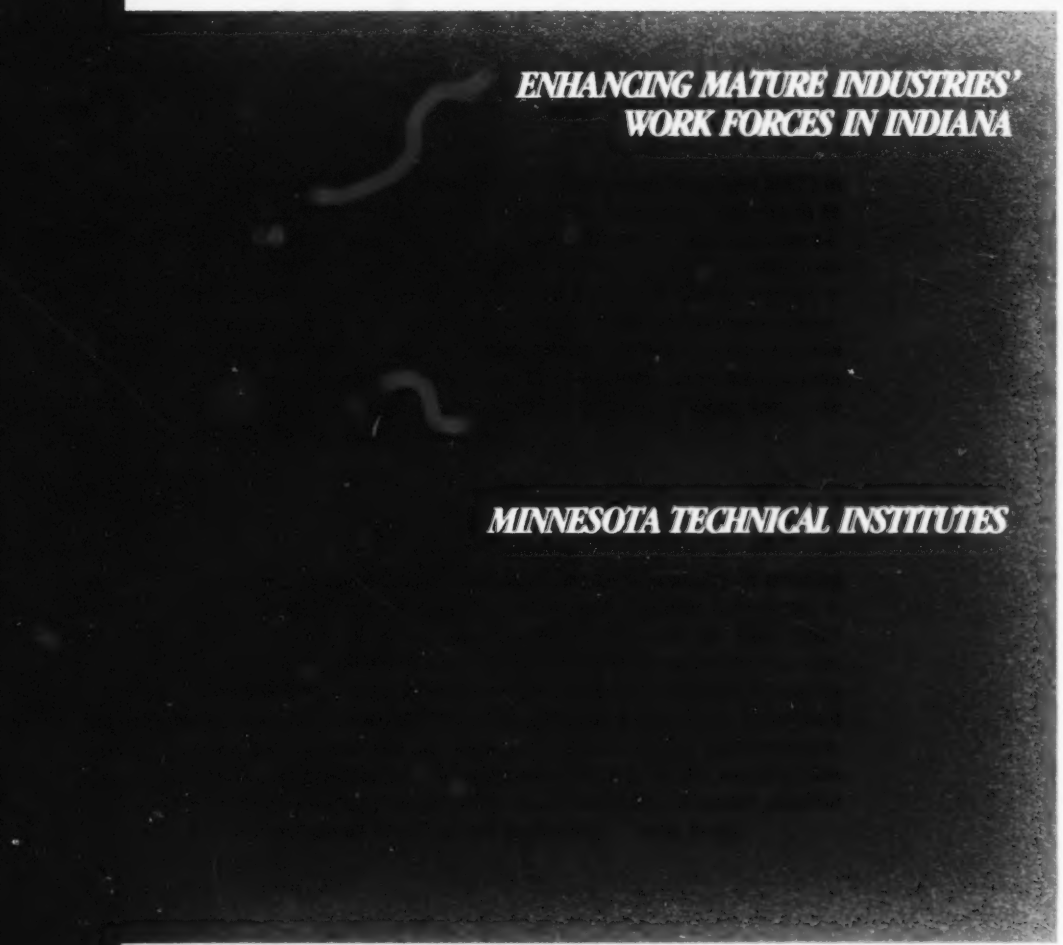
■ ***Help Local Districts Enhance the Math and Science Instruction in the K-12 System.*** The quality and quantity of teachers in these critical areas must be improved. States may also want to consider use of scholarships, grants, loans, and alternative certificate paths for teachers.

■ ***Provide More Specialized School Settings that Emphasize Math and Science, Including Summer Institutes for Promising Students.***

■ ***Generate More Scholarships for Students Pursuing Engineering and Other Science Degrees.*** To the extent possible, states should leverage resources from the private sector.

■ ***Promote Postsecondary Courses Which Take an Interdisciplinary Approach to Science, Engineering, and Business.***





THE CURRENT LABOR FORCE

Building tomorrow's workforce will not solve today's competitiveness problems. Three-fourths of the people working in the year 2000 have already entered the workforce. Thus, over the next ten to twenty years, it will be the productivity of the current labor force, not the emerging one, that will determine the competitiveness of the U.S. economy.

Many in our workforce are not equipped to meet the challenges at hand. Too many of our workers—managers, technicians and production workers alike—are narrowly trained and can not easily adapt to rapidly changing economic conditions.

To address these needs, we must rethink our approach to training—both who will require it and how we will provide it. Just as the emerging worker needs better schools, the current worker needs stronger training programs, not only for those in technical and manufacturing jobs, but for management as well. Because states have control over most of the post-secondary institutions and a variety of training and placement programs, they can help strengthen existing on-the-job training programs by working cooperatively with business and labor leaders.

Community colleges have played an especially important role in occupational and technical training during the last twenty years. State and local governments invested $11.6 billion to support these institutions in 1986. The most successful of these have reached out to local business communities and designed flexible, market-oriented training courses to meet the needs of both workers and businesses.

States have also initiated many new competitiveness programs aimed at retraining thousands of workers who have lost their jobs due to economic dislocation. Some state initiatives, set up with the private sector, have focused on retention strategies which provide training to firms that reduce the number of layoffs. These programs are based on the assumption that an effective human resource strategy is an essential element of competitiveness.

States have been appropriating their own funds for job training since the mid-1950s when customized job training programs were established. Initially designed as an industrial recruitment incentive, they now exist in all fifty states with funding ranging from $45,000 to $12 million a year. While many of these programs are still used as attraction tools, the trend is clearly toward a new emphasis on job retention and expansion. Programs initiated in the last few years are generally job specific. Most have extremely high placement rates—over 90 percent—and are based on close working relationships with the private sector.

Strengthening Private Industry Training

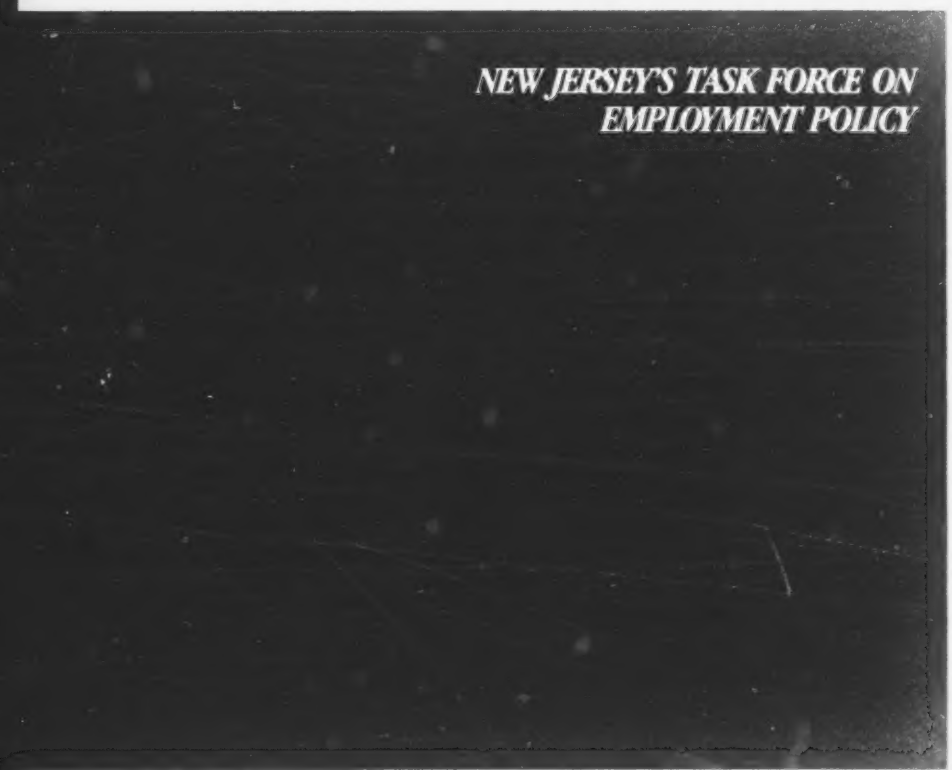
Training is now part of the economic equation of many successful businesses. For these businesses, training investments are seen as an integral component of capital investments. In many others, the message has yet to be heard.

It is estimated that the value of informal on-the-job training provided by America's employers is $180 billion, with an additional $30 billion spent each year on formal training courses. Some of this training is done explicitly to increase the skills base and productivity of employees. But a great deal of it simply replaces one set of narrow skills with another.

IOWA: NEW JOBS TRAINING PROGRAM

While states have no direct role in the management decisions of private businesses, the training decisions businesses make have a direct effect upon the competitiveness of the state's economy and the well-being of its people.

Private sector training currently suffers from many of the same shortcomings inherent in the public system; that is, training for narrowly defined tasks as opposed to investment in the broader skills needed for the changing workplace. Just as the public sector needs to refocus its efforts, the private sector must also begin to shift its emphasis if we are to increase the productivity of our workers.



3

STATE STRATEGY

Encourage the Private Sector to Invest in Training that Emphasizes the Broader Skills Necessary for a More Flexible Workforce.

Collaboration with the private sector can help states sort out an appropriate balance between long-term investments in basic education and short-term, market-oriented training and retraining. It can also reinforce the understanding that investment in worker training is in the economic self-interest of employers and employees.

Upgrading State Training Programs

If states are to use public resources to complement private sector dollars, they will need to develop a coordinated and focused plan to augment private sector investments. Such a strategy could target state monies for training and educational infrastructure which are consistent with state and local economic development strategies. Similarly, states can use their funds to increase the effectiveness of federal training programs by providing training to workers before they are dislocated or to individuals who do not meet restrictive eligibility requirements. Focusing a portion of state funds on the training needs of small- and medium-sized firms will increase the effectiveness of a "grow your own" economic development strategy. There is a need to accommodate the realities faced by these firms. In many cases, they underinvest in the early years because they are operating with limited capital and need to reinvest their profits to grow. Their size often precludes development of an in-house training capacity. Strategically, these firms should not be ignored. In the last ten years, small businesses have accounted for more than three-quarters of all new jobs.

MISSOURI JOB DEVELOPMENT FUND

FLORIDA'S HIGH TECHNOLOGY INDUSTRY COUNCIL

SKILLS CORPORATIONS

4

STATE STRATEGY

Re-orient State Training Programs to Reinforce State Economic Growth Strategies.

State training investments increase the long-run productivity of the workforce. Targeting workers in small- and medium-sized firms with high growth potential increases economic competitiveness.

Prior to adopting a training strategy, states should evaluate the current array of programs to see if they represent a coherant system. This can be done by identifying all current sources of funding, providers, and cost and duration of all training or retraining. This information can be used to determine how these expenditures complement an economic growth strategy. The information can also be used to ensure that public investments in job training promotes long-term security and reasonable wages for employees. A public/private forum can be established to assess state programs on a continuing basis.

This process can help develop resource allocation strategies. While each state's plan will differ, it will contribute toward a more effective set of state programs.

States can:

■ ***Explore Alternative Financing.*** States may want to create a special fund dedicated to job training. Establishing a revolving loan account to finance employee training is another alternative.

■ ***Target Training Resources.*** Resources can be redirected to ensure that state-supported vocational and technical training are targeted to high-demand occupations.

■ ***Create an Independent Skills Corporation.*** Such a corporation could function as a broker between industry and training institutions, developing curricula that meet the needs of employers. Employers may share training costs. The corporation would be administered by a board primarily from the private sector.

■ ***Provide Training for Individuals Interested in Self-employment.*** Training can be provided for dislocated workers interested in using their skills to start their own business. Programs should be structured to permit self-employed workers to learn management techniques.

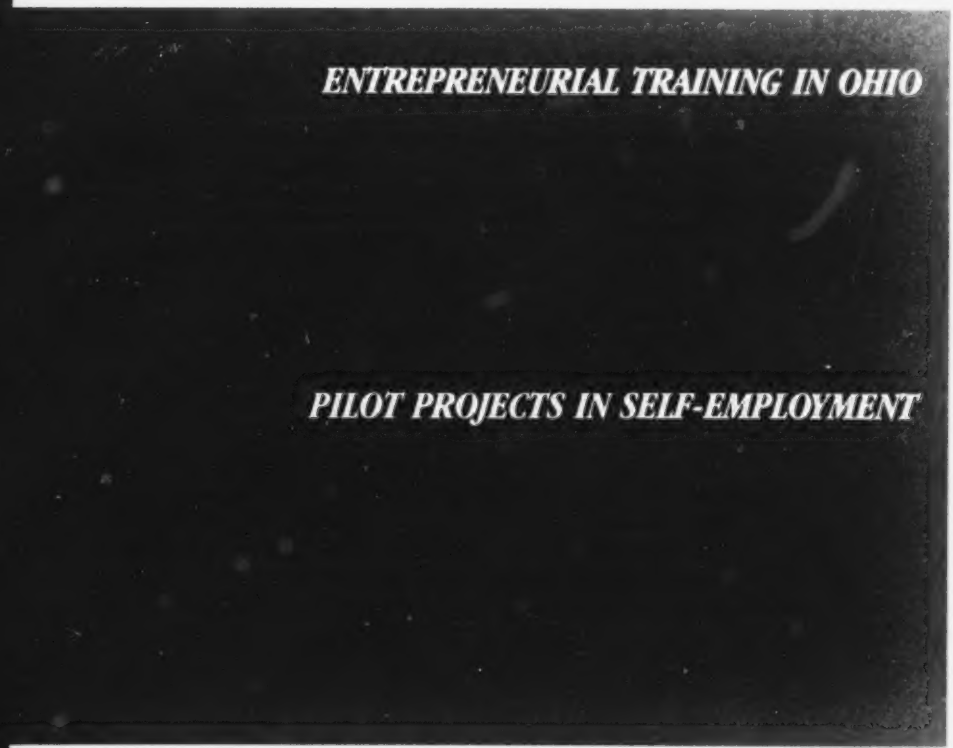
■ ***Establish New Funding Processes.*** All training funds could be allocated based upon a joint employee-employer plan. All training could then be provided through a competitive bidding process.

■ ***Create Mechanisms for Providers to Share Training Methods and Curricula.*** Telecommunications, video technology, and television can be used for training instruction. Self-paced instructional guides can be developed for use at home or work.

■ ***Pool Resources from a Variety of State and Federal Sources to Purchase Computer-based Instructional Materials at Reduced Costs.***

WORKER TRAINING IN CALIFORNIA AND DELAWARE

ARKANSAS: CIRCUIT RIDERS



EFFICIENT LABOR MARKETS

Most markets in the United States function efficiently. The various buyers and sellers know the range of goods and services that they can buy and sell at various prices. The way we match jobs to workers, however, is not an efficient process. This is due partly to the lack of information on the location of new jobs, wage rates, and the required skills, as well as on our labor supply. Labor market efficiency is also limited by the barriers which restrict the mobility of workers—the lack of portable pensions and health plans, for example. Furthermore, certain rigidities in our labor exchange and transitional assistance restrict the use of these funds, in turn hindering the quick re-employment of workers.

Some existing income support programs do not assist workers in transition. Ten million people have lost their jobs since 1981. This dislocation has not only placed a strain on these individuals and their families, it has stretched the institutions and safety net programs provided by government. A more efficient labor market will add to productivity by effectively matching workers to jobs and allowing for more cost-effective training and more rapid re-employment.

Over 80 percent of the workforce finds jobs through informal networks of family and friends, or through college placement offices and newspapers. Public and private employment agencies assist the other 20 percent. Within the public sector, government-supported institutions provide job search and job matching services. Many provide services to specific target populations such as welfare recipients, handicapped individuals, or older workers. Others are integrated into a "full service" program offered through the Private Industry Councils established by the Job Training Partnership Act. Yet the oldest government labor exchange service, the U.S. Employment Service, which has served the nation well for more than half a century, now is confronted with a new challenge—meeting the changing needs of today's labor markets. With recent changes in federal law, Governors have the opportunity to refocus these institutions.

5

STATE STRATEGY

Increase the Efficiency of Worker Assistance Programs.

It should be easier for workers to find jobs and employers to find workers. Transitional assistance can accelerate the training and rapid reemployment of workers.

To ensure the most effective labor exchange, states may want to:

■ ***Improve the Quality and Availability of Labor Market Information.*** The employment and unemployment data generated by the Employment Service help measure the health of our national economy. This data needs to be improved and meshed with data from other sources

MASSACHUSETTS: MASSJOBS SOUTHEAST

CONTINUING HEALTH BENEFITS IN CONNECTICUT

SHORT-TIME COMPENSATION

to meet the needs of multiple users. Governors may want to establish a task force of users, including the private sector, to advise the state on ways to improve the quality and access of labor market information.

■ ***Develop a Unified State Worker Assistance Strategy.*** States may want to use the resources of the Employment Service and state job training programs to coordinate the delivery of state services. States can also work with local JTPA agencies and other providers to develop a coordinated, accessible set of services. A "one-stop center," which provides job placement, counseling, and training information, can be created.

■ ***Use Market Demand as a Measure in Designing Employment Service Programs.*** States may want to use market signals to design Employment Service programs. This could include offering workers choices in the services provided; emphasizing self-help and group techniques for job search; establishing delivery locations according to demand; and encouraging competition in the provision of services. User fees for some of the services could be explored.

■ ***Provide Extended Benefits and Support Services for Dislocated Workers.*** Some states may wish to extend unemployment insurance benefits beyond the base period. Separate funding for relocation assistance, and day care for children of dislocated workers can be established to help in transition. With employer support, health insurance benefits can be provided for laid-off workers for a limited time period.

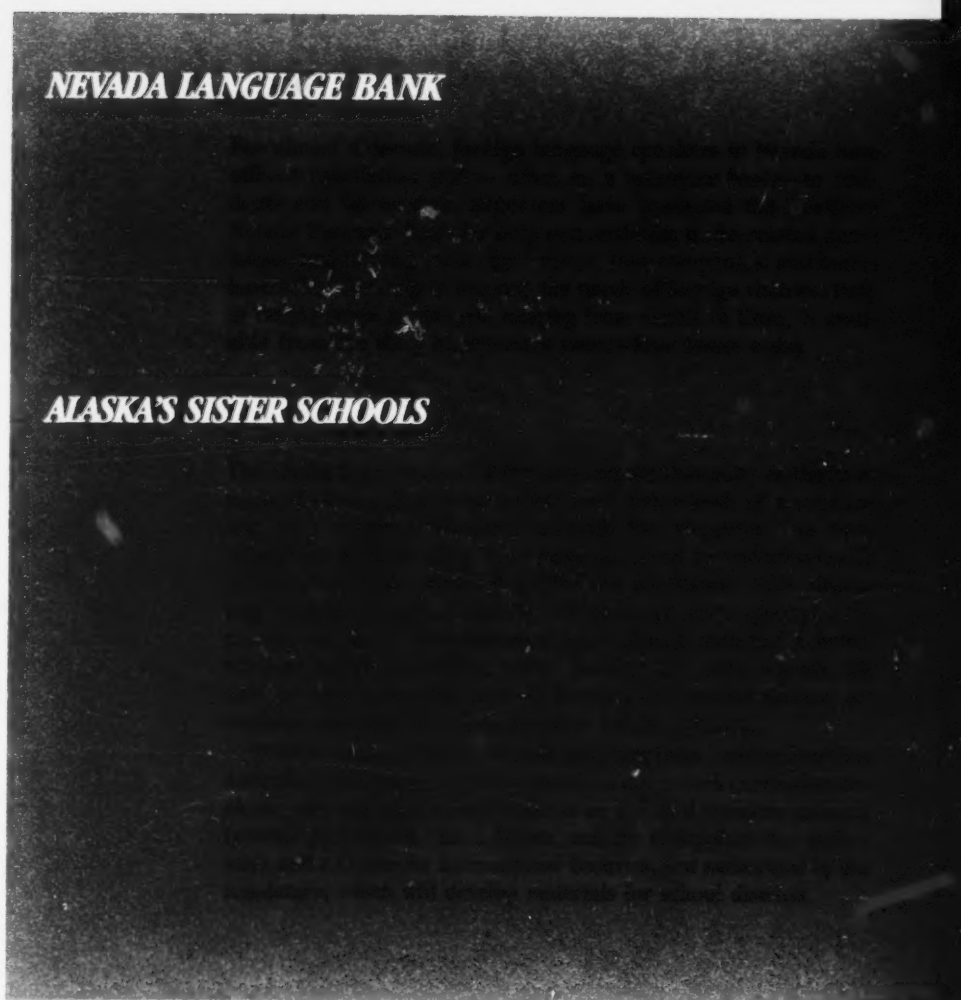
■ ***Develop Alternatives to Employee Lay-offs.*** States may wish to consider creating short-term compensation plans to permit employees to work fewer hours per week and collect partial unemployment benefits. This work sharing alternative should have employee-employer approval.

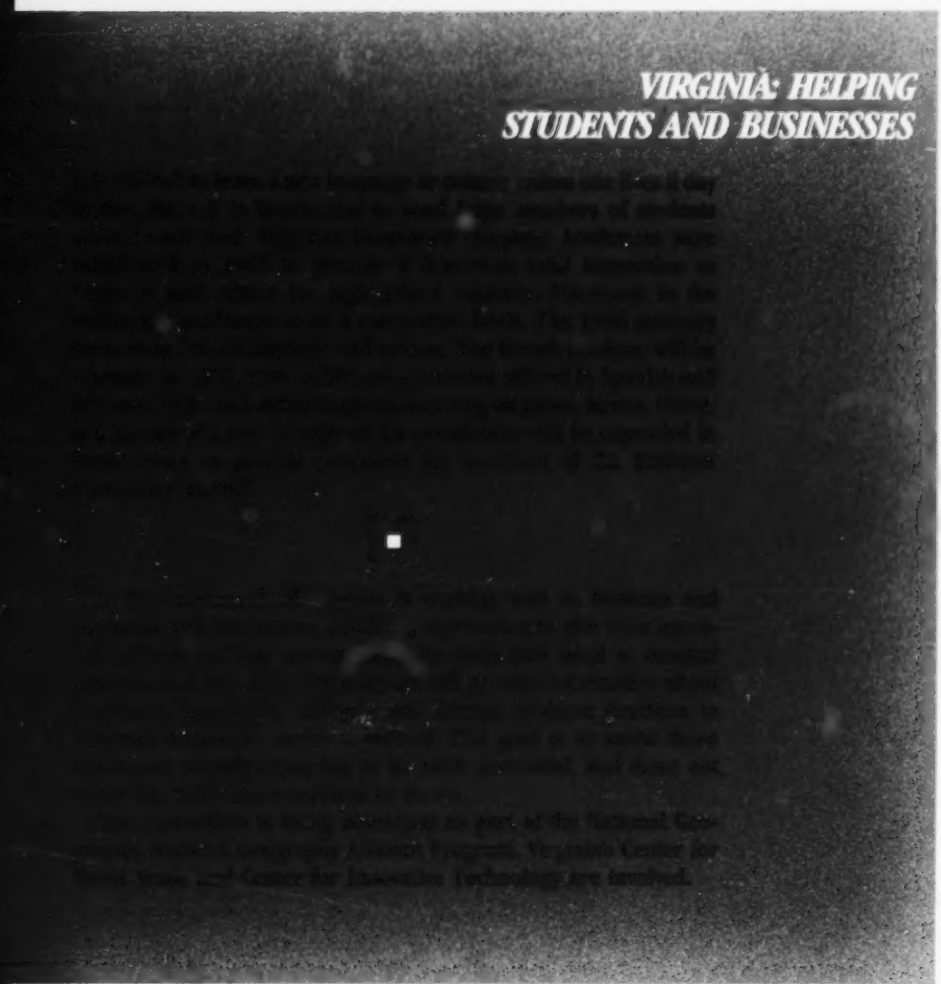
UNDERSTANDING GLOBAL INTERDEPENDENCE

Both our emerging and existing labor force need to reach beyond our borders. The new internationalism is affecting the crops farmers plant, the technology used by the line manager, and the stocks purchased by the Wall Street broker. American businesses already depend on international activities for approximately one-third of their profits. Thirteen of the largest U.S. banks derive half of their earnings from overseas credit. If we are to benefit from this new global interdependence, members of our current workforce must understand the culture, politics, business practices, languages, and geography of other nations. In the final analysis, the best jobs, the largest markets, and the greatest profits will flow to the workers and firms that understand the world marketplace.

In short, to compete in the international economy, Americans need to understand the world around them, and in most cases, we do not.

Our students provide the most graphic evidence of the problems faced by emerging workers. Fewer than 1 percent of our elementary students are exposed to foreign languages, and only 1 percent of our college graduates can communicate in native languages spoken by three-fourths of the world population. More than one-





third of high school students recently surveyed in a major American city could not name three countries in Europe.

The current workforce has a similar handicap. For example, only 5 percent of our college graduates are fluent in a foreign language. There are an estimated 10,000 English-speaking Japanese business representatives in the United States. Fewer than 900 American business representatives are in Japan and only a handful speak Japanese. Less than 5 percent of Japanese technical literature is ever translated into English.

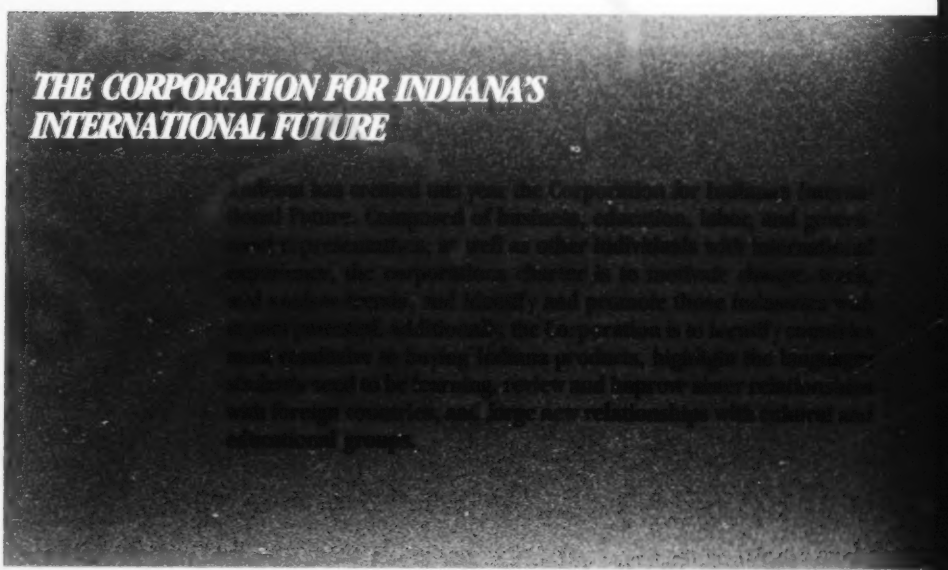
As a result of these deficiencies, American workers and businesses operate at a major disadvantage in selling U.S. goods and services, adopting new technologies, and pursuing necessary financing.

6

STATE STRATEGY

Develop Programs and Curricula to Improve International Understanding.

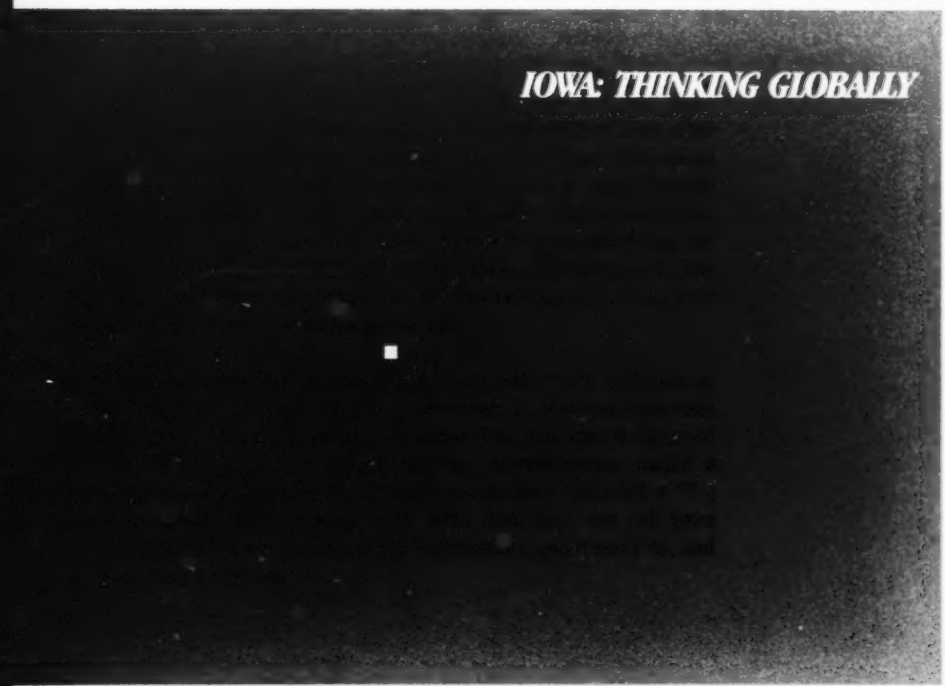
To succeed in a global economy we must know our competitors. As the principal providers of education in the nation, states must invest in their schools and educational institutions to ensure their graduates will be able to compete successfully in the international arena.



States can:

■ ***Enhance International Curricula.*** School districts could be encouraged to teach geography as a distinct subject at all grade levels, and to provide language courses at the elementary school level with an emphasis on listening and speaking skills. At the college level, foreign language proficiency could be reinstated as a requirement for admission.

■ ***Strengthen Teacher Education.*** Teacher certification requirements can be examined to ensure that they include an emphasis on geography, communications skills in foreign languages and international studies.

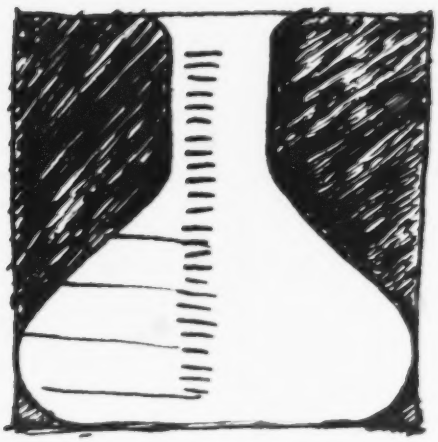


■ ***Develop Special Programs.*** States can supplement current courses through summer programs in languages and international studies, and sister school agreements. States can also find ways to use telecommunications and other technologies to link resource-rich and resource-poor districts.

■ ***Provide International Education to Business.*** Courses in international business could be required in state-supported business school programs. Curricula focusing on language, cultural training, and foreign business customs can be developed to assist current managers and executives.

CHAPTER THREE
EFFICIENT WORKPLACES

EFFICIENT WORKPLACES



What drives our economy—and determines in large part how competitive we are—are millions of individual decisions made every day in the places where we work: what to buy, to sell, to build, to invest in, to invent, and more.

What keeps this system moving are large corporations, small businesses, self-employed people, farmers, and others with new ideas—new ideas about products and services, new ideas about production processes, and new ideas about markets.

While our economy is being buffeted by a variety of outside forces, fundamentally it is the decisions made in America's workplaces that will help determine our position in the global economy. States do not have—and should not have—significant control over these decisions. But they can affect them. States can help our workplaces become more efficient, more responsive, and more productive—and in the long-run, more competitive.

States can encourage the development and application of new technology. They can foster more efficient and productive employer-employee relations. They can help businesses identify and penetrate export markets. They can provide technical and financial assistance for new and small businesses to help them get started. And they can leverage capital for business start-ups and expansions that might not otherwise be available.

TECHNOLOGY

The United States has long been the world leader in advancing science and technology. This leadership is now in jeopardy. Many other countries have begun to invest heavily in these areas to enhance their own competitiveness. A 1985 National Science Board report found that, in 1983, the United States invested 1.9 percent of GNP in non-defense research and development while Germany invested 2.5 percent and Japan 2.6 percent. Between 1971 and 1984, the United States experienced a 31 percent decline in the number of patents granted to U.S. inventors. Foreign patent applications by U.S. citizens fell by about 50 percent between 1969 and 1982; during the same period, Japanese external patent applications grew by almost 55 percent.

Numbers are, however, less significant than the quality, direction, and use of research and development in the creation and refinement of final products and capital equipment. In many areas, our competitors have been able to capitalize on the results of U.S. research and development. The video cassette recorder is a classic example. Although it was invented

PENNSYLVANIA'S BEN FRANKLIN PARTNERSHIP

"We feel very strongly that our economic future will be formed by the public-private partnership. The stronger the partnership, the closer the cooperation, and the greater the trust among business, academia, and government—the more likely we will be to shape Nevada's economy in a positive, enriching, and stable way, as we prepare to enter the 21st Century. Our future depends on it."

RICHARD H. BRYAN
Governor of Nevada
Symposium: Public Private Partnerships and Nevada's Economic Future

in the United States in 1956, not one VCR is produced in the U.S. today.

States can and do have significant influence on the development of new technologies and the movement of those technologies through the economy. Almost half of all basic research is conducted in universities, many of which are funded and operated by states. Recognizing the link between innovation and future productivity in the workplace, states should consider creating a comprehensive technology commercialization strategy to address research and development, financing of new technology-based businesses, training, and the application of technologies in existing businesses.

Technology Development

Universities are important sources of new concepts and new technologies. The primary mission of universities is not to assist industry but to educate. This should never be compromised, but state-supported research institutions can play a critical role in state programs to help business. The strengths of local universities, federal laboratories, and other research institutions should be evaluated carefully to identify new ways of linking these institutions to critical state industries. Indeed, the benefits of such cooperation go beyond strengthening businesses. They can help state institutions develop state-of-the-art expertise and can increase the long-term productivity of the state's workforce.

Joint activity involves more than just donations of cash or equipment. New types of partnerships are needed. These must be based on positive interaction between industry and university researchers, working side-by-side in laboratories on jointly defined research objectives. They should include information dissemination, and extend not only to the research departments of the businesses involved, but to top executives in production, planning, product design, and marketing.

Research excellence will not be achieved by simply giving money to every college and university across the state. To obtain the best results, states need to encourage competition between various research centers, both public and private, and distribute funds on the basis of merit.

Many states have already established centers of excellence or advanced technology centers as linkages between research and industry. The centers specialize in technologies of special importance to local industries, and generally undertake multi-disciplinary research and development. The organization of these centers varies. Some are state-financed, some privately financed, some cooperatively financed. They may be university-based, independent, or semi-independent. But all have, at their root, a common objective: To enhance the productivity and competitiveness of existing workplaces and to create new ones.

7

STATE STRATEGY

Stimulate Technology Development by Fostering Close Linkages Between the Research and Business Communities.

The link between innovation and competitive workplaces is direct. States need to promote technology development in a manner consistent with their priorities, and establish working partnerships between educational and research institutions and businesses to focus and accelerate that research.

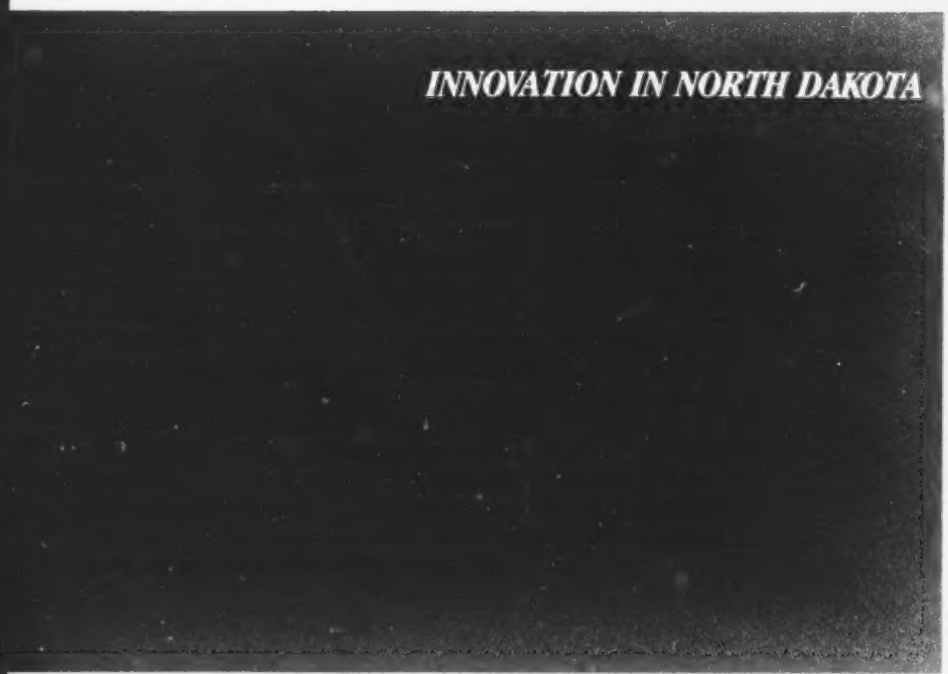
States can:

■ ***Establish Technology Centers.*** These centers build bridges between public research and private industry, and help provide new ideas for the marketplace. They can also help traditional industry manufacture products more efficiently, and can stimulate emerging technologies of special importance to local industries.

■ ***Upgrade Postsecondary Research Laboratories and Equipment.*** States can explore innovative investment strategies to improve labs and equipment, including private sector contributions, joint use of facilities, and state revolving loan programs.

NEW JERSEY'S TECHNOLOGY RESEARCH CENTERS

OREGON: USING LOTTERY PROCEEDS FOR DEVELOPMENT



■ ***Encourage Flexible Work Agreements.*** Barriers inhibiting the interchange between researchers and industry should be identified. Innovative work agreements could include faculty release time to work on the commercial application of research, faculty-industry exchanges, appointment of adjunct professors, as well as more flexible courses and curricula.

■ ***Adopt Policies and Incentives that Promote Cooperative Research Agreements Between Industry and Academia.*** States should review university policies on patent rights to allow public institutions and researchers more control over commercialization and licensing of findings and provide for the retention of earnings from patents.

Technology Transfer

Often, the most cost-effective approach to helping businesses apply or commercialize new technology is through technology transfer programs. These are particularly important to small businesses, which may lack the resources to keep abreast of university research and yet may have the most ability to commercialize new technology quickly.

8

STATE STRATEGY

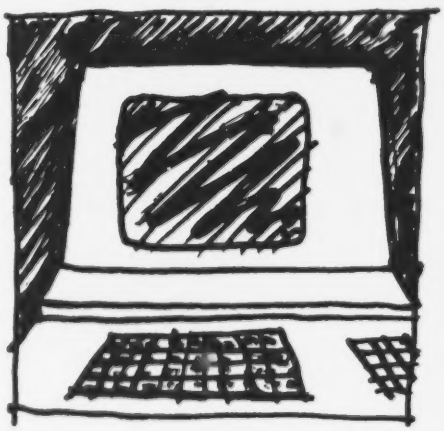
Increase the Rate of Technology Transfer by Disseminating Research and Development Information, Particularly to Small- and Medium-Sized Firms.

Rapid commercialization of technological breakthroughs will increase our future competitiveness in the world marketplace. The more states can accelerate the transfer of new technologies to businesses, the more competitive our workplaces will be.

States can:

■ ***Establish Centers for Applied Technology.*** Acting as a central resource, these centers can provide field services and information to assist businesses with their research and development needs. They can collect and maintain a data base of current research, available technology assistance, and venture capital sources.

■ ***Support "Tech-Transfer" Incubators.*** States can support incubators for new firms that are commercializing technological advances. In addition to the services provided by most incubators, such as low-rent space, office support, computer access, and on-site technical services, these specialized incubators can provide technological expertise and management services such as patent and licensing information.



ARKANSAS' RURAL INCUBATOR

"If you want to build a constructive climate, a climate in which human beings can achieve and in which human beings can be happy at the same time, you do it with positive reinforcers, you do it with security, with assurances, with teamwork. You do it by avoiding scrupulously the tools of the manager that destroy human initiative. Both labor and management must take a fresh approach to their relationship, based on active involvement from the ground up. No one can force labor and management to do this, but the state can create a climate which encourages this kind of cooperation in the workplace."

STEVE SCHLOSSBERG
U.S. Deputy Undersecretary of Labor
Task Force Hearing
Cleveland, Ohio

EMPLOYEE-EMPLOYER RELATIONS

American industries have switched to more complex, technology-intensive manufacturing processes. Just as technology has changed the dynamics of the workplace, there has also been a change in the relationship between employees and employers.

Employee-employer relations are essentially private, with federal law establishing the framework for labor organizing and collective bargaining. However, states can do much to support the development and maintenance of constructive labor-management relations within their borders.

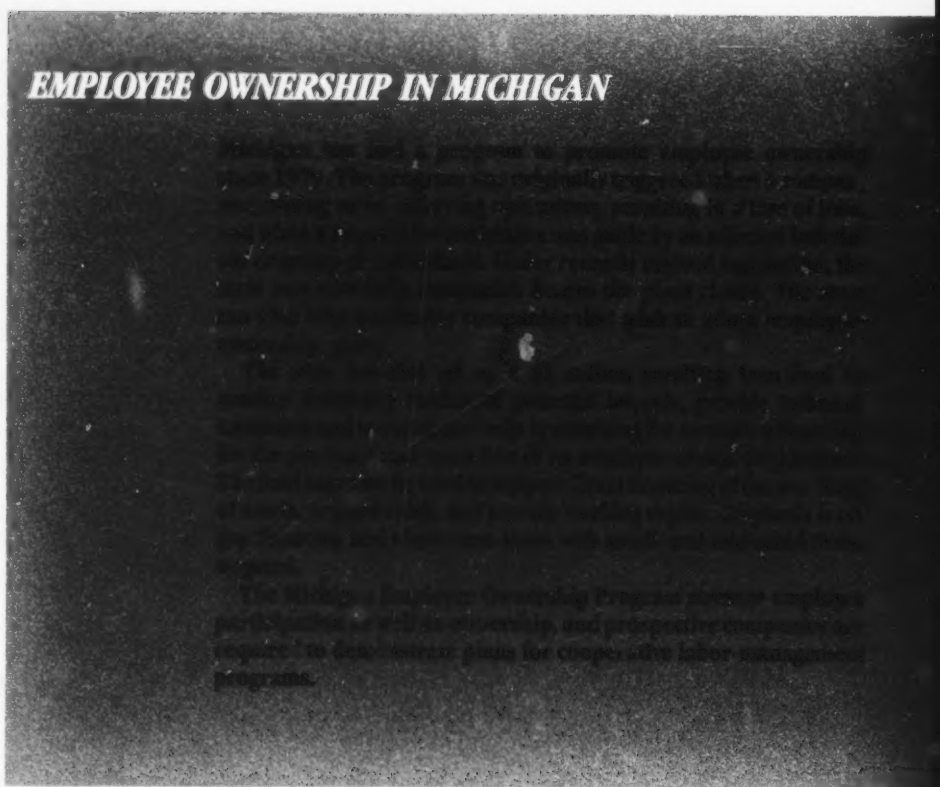
Whether in the field of economic development, employment and training, or occupational health and safety, state policy makers are constantly faced with the need to balance competing interests. It is through this brokering process that state government can set the tone for employee-employer relations in the state. Here, states can best act to build trust between labor and management—and facilitate change.

The full benefits of new technologies and the flexibility needed to tap new market opportunities require ongoing communication between labor and management. The ideas and energies of workers can increase their productivity on the shop floor. Greater involvement in decision making can increase worker satisfaction; make better use of worker skills and experiences; and encourage closer identification between workers' personal goals and those of their companies.

Cooperative workplace relationships often require new management styles and new approaches to problem solving concerning production processes, product quality, job training, finances, and workplace health and safety. States, and especially Governors, can play a critical role in setting the stage for these changes. They can use their powers of persuasion and publicity to create an atmosphere for innovation.

Labor-management cooperation and active employee involvement in decision making can lead to new systems which provide employees a financial stake in the firm. A wide range of such schemes exist, including bonus systems that link pay and productivity; and employee stock ownership programs where workers own equity shares in the corporation.

Establishing an employee incentive program is clearly a private-sector decision, under the jurisdiction of the management and workers of any given worksite. In many situations, especially those involving small- and mid-sized businesses, managers and workers may lack adequate information and expertise about employee incentive programs. States can work with these groups to provide needed background for these decisions. In some cases, state tax codes or commercial laws may contain disincentives to the establishment of alternative financial and ownership schemes, and states may want to examine these legal restrictions.



9 STATE STRATEGY

Encourage Labor Management Cooperation and Increased Employee Involvement in Decision Making.

Employee-employer relations have a major effect on workplace productivity. When requested, states should assist employees and employers improve relations.

States can:

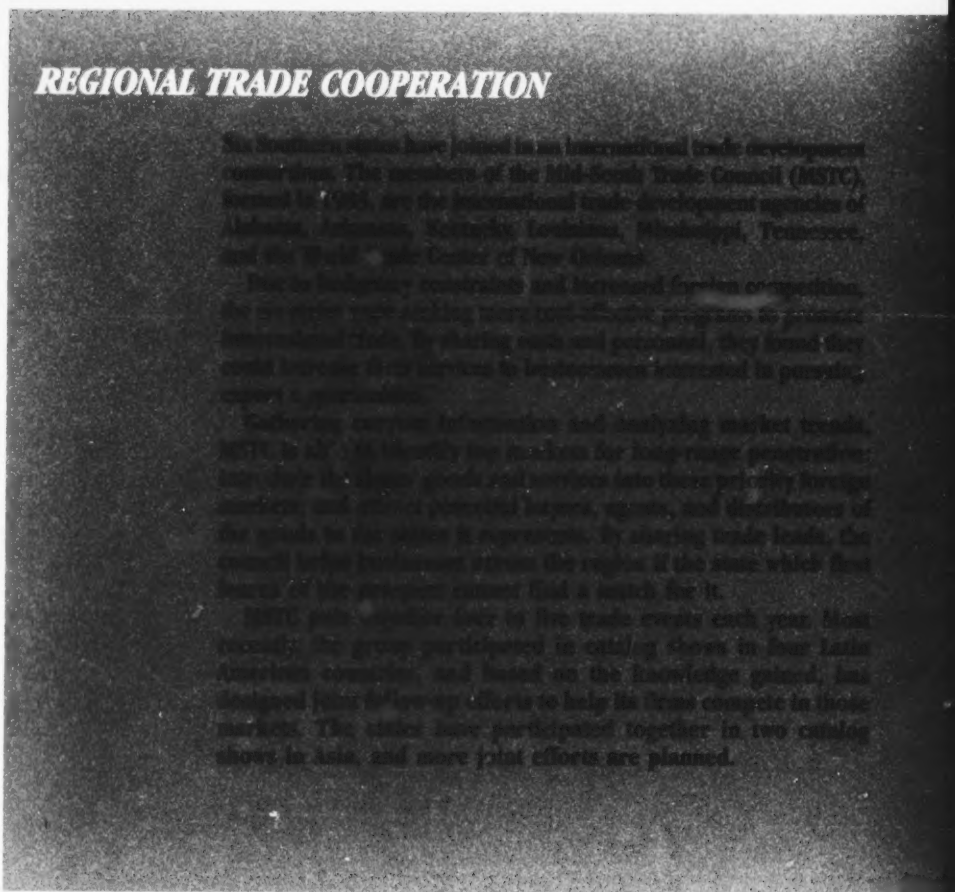
- ***Support Flexible Employee-Employer Relations.*** At the request of labor and management, states can provide information on successful employee involvement and incentive programs, and technical assistance needed to help launch programs.
- ***Establish Productivity Centers.*** States can support productivity or labor-management centers. Often established at colleges or universities, these centers use business professors to provide educational and technical assistance.
- ***Support Forums for Employee-Employer Cooperation and Integrate Them Into State Economic Development Strategies.*** States can create statewide labor-management forums and can help area committees with technical assistance and seed funding. Such forums can help coordinate services to dislocated workers at the plant level.
- ***Adjust Legal and Regulatory Restraints.*** States may adjust their tax codes to remove impediments to new incentive programs.

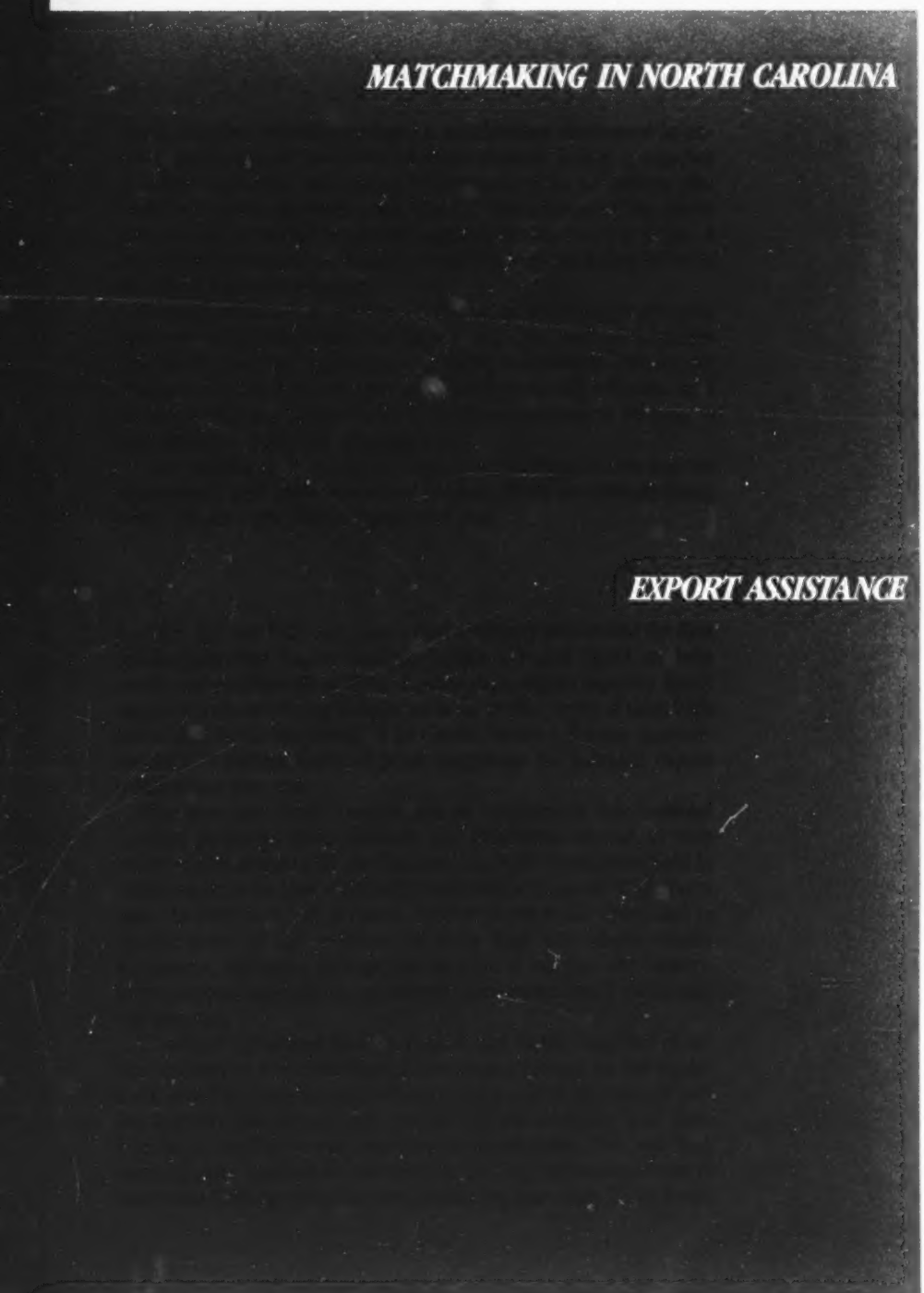
■ PAGE 40

EXPORT DEVELOPMENT

American firms can and must increase their exports. Only one in five U.S. manufacturing firms is involved in some exporting activity. Many of these companies export less than 1 percent of their total production. Yet, experts believe that at least 200,000 additional companies, many of them small firms, have goods with export potential. Moreover, even firms currently exporting are often reluctant to seek new customers or enter markets in countries with which they are not familiar. In many cases, it is lack of information that keeps these businesses out of the foreign marketplace.

We need more than new information. We need a new approach to exporting. Traditionally, American firms have produced American products for foreign consumption, and states have promoted these products abroad. In the emerging international economy, U.S. firms will need to design goods and services specifically for export, responding to consumer preferences in particular countries. The role of the state will not only be to help promote these goods and services, but also to assess the imports from foreign countries and to encourage local firms to enter these markets by developing import substitutes.





10

STATE STRATEGY

Promote State Exports by Helping Firms Identify and Expand International Markets.

America can no longer stay competitive by trading with itself; it must expand its reach into the global marketplace. But many of our most promising exporters are small businesses that lack information on how to reach these global markets. States can use their existing export programs as the base for comprehensive export assistance services designed to make all workplaces international traders.

States can:

■ ***Work With Other States to Promote Exports.*** States can share trade leads, participate in joint trade missions and tourism promotions, exchange information on potential markets, and establish joint offices abroad.

■ ***Facilitate Exports.*** Many firms do not export because they do not know how. States can undertake a two-pronged approach by encouraging American producers to redesign products for foreign markets, and by linking firms with export trading companies, port authorities, and freight forwarders.

■ ***Identify New Trade Opportunities.*** A strategic assessment of potential markets can help develop new state export opportunities. Third World countries, in particular, often represent overlooked markets. Once a trade strategy is developed, state offices abroad and trade missions can be used to pursue those customers. Service industries, including tourism, should be part of the state's export efforts.

■ ***Experiment with New Export Incentives.*** States can provide grants to local governments to enhance regional exporting capacity and establish foreign sales corporations so that small companies can benefit from federal tax incentives.

■ ***Ensure That Exporters Have Access to Necessary Financing.*** A state review of the financial sources available to its exporters should be a high priority. A plan should be developed, with the participation of the financial sector, to make those resources more readily available.

VIRGINIA'S EXPORT INCUBATOR

"What is more important than whether we are spending sufficient dollars on research and development is the quality of the research, the attitudes of the people that do it, and the direction in which it is aimed."

JOHN McTAGUE
Vice President for Research and Development
Ford Motor Company
NGA Workshop on Technology

"Throwing dollars at research and development isn't enough. We must leverage the dollars more effectively by forming coalitions and cooperative groups to share ideas and common problems at technology centers and specialized facilities. We need to maximize our return on human resources, facilities, and equipment at universities, research laboratories, and in industry."

DON WILLIAMS
Battelle Pacific Northwest Labs
NGA Workshop on Technology

FINANCIAL AND TECHNICAL ASSISTANCE

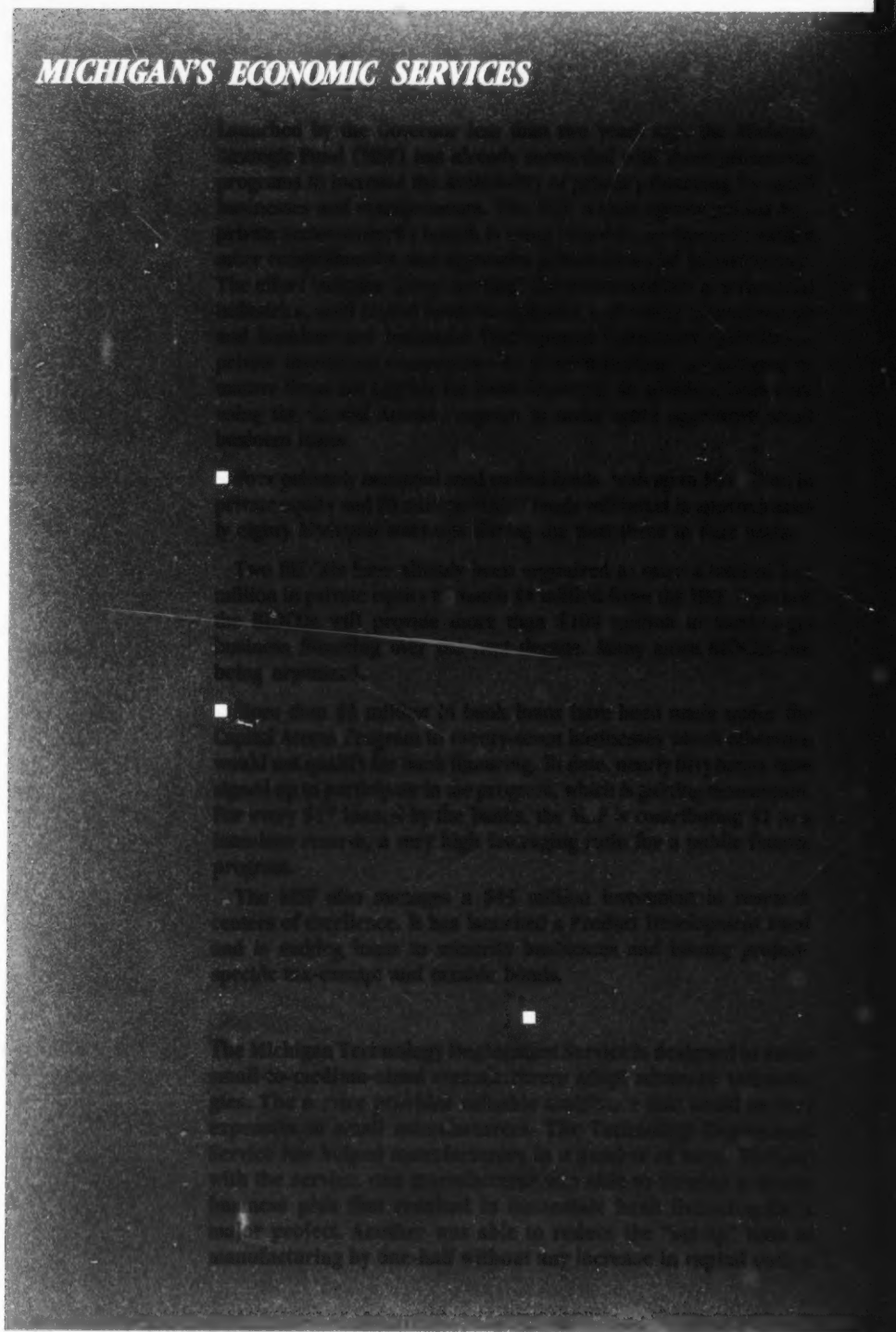
The nation's ability to translate innovative ideas into new products and processes depends, in large part, on the availability of affordable capital. Often it is maturing industries, whose products face the greatest competition, and small businesses, that hold the most promise for innovative ideas, that are at a competitive disadvantage in commercial capital markets. In his new book, *The High-Flex Society*, economist Pat Choate points out that venture capital and government loan funds provide only 1 percent of capitalization for entrepreneurs. More than 70 percent of new businesses are financed chiefly by personal savings, relatives, or friends. Most important, over half of all small business loans are for one year or less. This places enormous pressure on these enterprises.

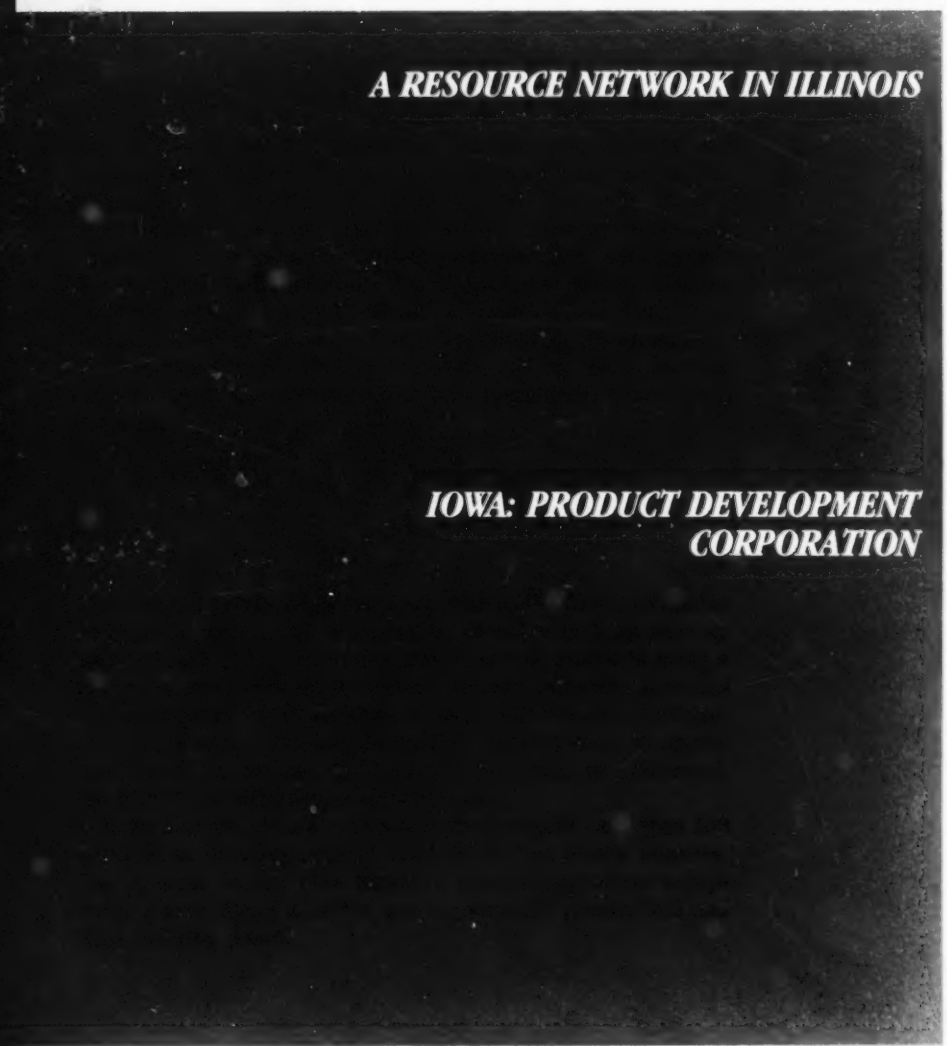
A variety of state policies, both direct and indirect, affect the availability and cost of capital. The indirect mechanisms available to states vary from policies affecting the tax treatment of unearned income to the regulation of financial institutions and fiduciaries. Some evidence suggests that competition among financial institutions can increase small business access to capital. Estimates indicate that a substantial portion of available capital will be tied to pension funds over the next twenty-five years. State regulation of these funds, therefore, will have an important impact on access to capital.

A number of states have direct financing programs that fill gaps in commercial capital markets. Many of these focus on long-term loans to small business, financing targeted to mature industries for restructuring or product development, or venture capital for start-ups. Such programs can be more effective when their activities

are closely linked to private sector financing sources and to state and federal technical assistance programs. For some states, venture capital programs may be particularly important. A 1982 study by the Office of Technology Assessment estimated that only 5 percent of private venture capital financing was in seed stage companies. This was compared to 11 percent in start-ups, 44 percent in expansions, and 11 percent in leveraged buy-outs.

Historically, many businesses with new and innovative products have failed, not only because of lack of financing, but also lack of technical or management skills. Many states have, therefore, set-up management assistance programs to provide entrepreneurs and small business owners with the tools they need to meet the challenges of a global economy.





11

STATE STRATEGY

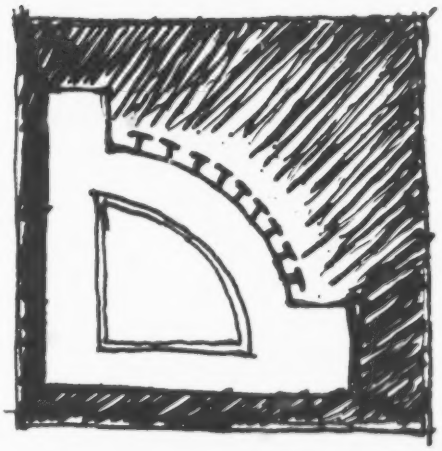
Assist Entrepreneurs and Other Small- and Medium-Sized Firms Obtain Financial and Technical Support.

Access to financial and technical assistance is critical to business growth. States have a key role in providing financial assistance to enterprises with growth potential that would otherwise be unable to obtain commercial financing at competitive rates and terms. Financing for small businesses and firms in maturing industries is particularly important. To ensure that public financing is used effectively, states should provide technical assistance.

States can:

■ ***Provide Capital Directly.*** States can provide capital directly to enterprises that cannot obtain money in commercial markets. They can influence commercial investment in higher-risk projects by using public monies to leverage private investors, providing loan guarantees, creating loan pools and secondary markets, and making strategic deposits of state funds.

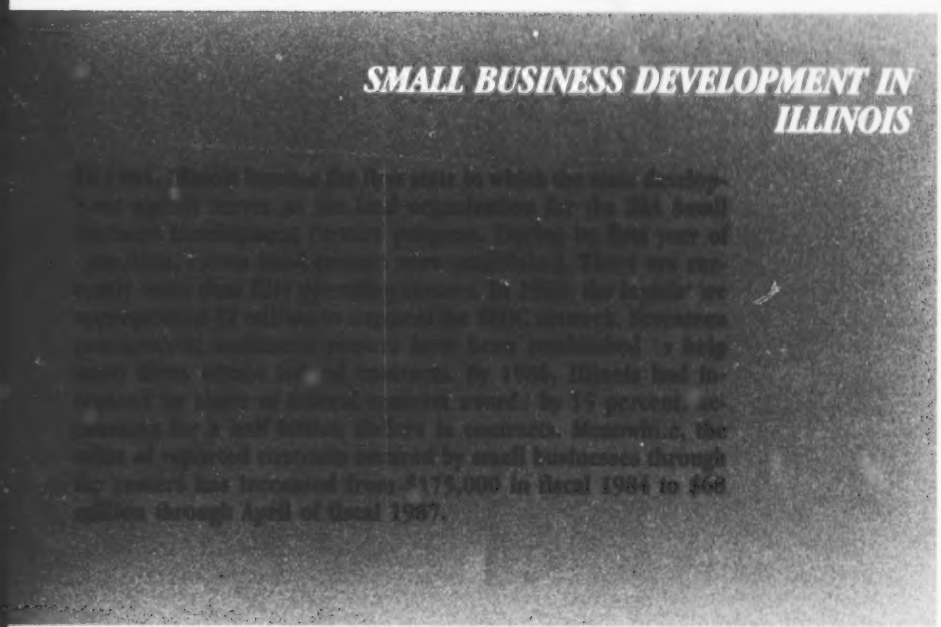
■ ***Seek Alternative Sources of Capital.*** Tax reform has limited states' ability to provide long-term, fixed asset financing through tax-exempt industrial development bonds. States can, however, develop substitute funding mechanisms through individual and pooled issues of taxable IRBs, state-owned or subsidized venture capital corporations, stock companies, tax increment financing, and other dedicated funding sources.



OHIO'S SMALL BUSINESS CENTERS

The Small Business Enterprise Center (SBEC) program is a decentralized management and technical assistance service coordinated out of the Ohio Department of Development. Designed to provide a unified focus for small business assistance services at the local level, the program seeks to avoid duplication and overlap of services. Prior to establishing a SBEC, the state requires a commitment of support from already existing local business service providers, such as chambers of commerce, state universities, small business management programs or vocational-technical institutes. Once designated, the state provides $13,000 that must be matched with local resources.

Thirty-one centers currently exist. Six are also SBA-supported small business development centers. The level of funding and staffing varies depending on the community resources used to supplement the state contribution. Generally, SBECs provide small businesses with management and technical assistance, legal assistance, educational programs, funding sources, procurement assistance, export trade opportunities, and small business incubator programs.

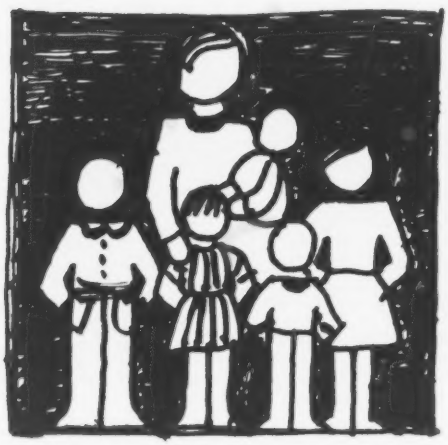


■ ***Give Firms Technical Assistance.*** Many firms need management assistance. States can coordinate public and private support for technical assistance to businesses, including management, procurement assistance, and individual outreach services.

■ ***Help Firms Meet Regulatory Requirements.*** Many states have already established business ombudsman offices or one-stop licensing and permitting centers. States should assess the effectiveness of such services where they exist, and continue to undertake new initiatives designed to streamline the regulatory processes.

CHAPTER FOUR
RESPONSIVE COMMUNITIES

RESPONSIVE COMMUNITIES



The currents of economic change are global. But efforts to respond to change and to improve competitiveness must start in our communities—with farms, neighborhoods, workplaces, cities, and states—where decisions are made. All citizens—as employers, as employees, and as taxpayers—are entitled to communities that can anticipate change, respond to change, and most of all, can grasp the opportunities created by change.

States play a vital role in creating viable, responsive communities. States coordinate a spectrum of policy instruments, and often provide the specialized resources that local taxes cannot support. Many federal assistance supplements are channeled through the states. These include funding for infrastructure, education, income support, and community development.

The state role is primarily one of support, giving communities the tools, the resources, and the opportunities to manage their own development. The basis of resilient communities, just as of productive workers and efficient workplaces, is in the communities themselves.

States and communities must work together to build stable economies, for a strong economic base ensures a high quality of life. State efforts to help communities should begin by evaluating the community's economic position. Communities generally fall into four categories:

healthy communities that are experiencing significant economic growth; communities of "opportunity" that are stagnant or experiencing slow growth, but exhibit signs of growth potential; distressed communities that have been chronically disadvantaged by a long history of deterioration; and communities that have become dislocated due to a plant closing or other short-run economic crisis.

The state's responsibility to each of these communities will vary. But in all cases, a realistic self-assessment by the community is a critical part of creating state strategies for economic development. Once the economic position of the community has been evaluated, state and local leaders need to pinpoint the community's assets and liabilities. Does it have ample services, highways or waterways, or telecommunication capacity? Does the workforce have the required skills? Does it have access to markets? What barriers to development does it face?

This self-evaluation and the economic position of the community can provide the basis for a strategy for development assistance. The three major options are:

■ ***Economic Diversification.*** Regardless of the community's economic position, diversification is the over-arching, long-term strategy states should continually emphasize.

■ ***Target Communities for Development.*** Communities that do not have an ample tax base, but that display a reasonable possibility for accelerated development should be targeted for special assistance. Distressed communities should also be targeted. State development plans for these communities generally reflect a commitment of three to five years.

> ***"We must accept the fact that state government needs allies, including the private sector, and we must make local government a real partner in the business of shaping Florida's future."***
>
> BOB MARTINEZ
> Governor of Florida
> Inaugural Address
> January 6, 1987

■ ***Respond to Dislocation.*** Communities suffering from dislocation need a quick and concerted response. These efforts can be as brief as several months to a year, and should focus only on areas that are in the midst of severe crises.

ECONOMIC DIVERSIFICATION

The Long-Term Challenge

Individual regions have learned the importance of diversification the hard way. Communities that have based their economies on one industry or one product have suffered extreme hardships when that industry has shifted or moved, or automated. The diversification of regional, state, and local economies is a complex, long-term undertaking. It is not a matter of seeking replacements or even starting new firms, and while it is tempting to target efforts to high-growth industries, an uncritical rush to a single sector or single industry may only recreate vulnerability for a new generation. The latest technological fad may have a future no more promising than an outdated assembly plant.

Building diverse local economies begins with identification of the strengths of the community—the resources and facilities that are the community's competitive advantage. Part of their advantage may lie in existing producer-supplier linkages that offer ready routes for economic diversification. Such linkages may suggest ways to further process local products. Generally, the more producer-supplier linkages the community possesses within existing industries, the more likely other such industries will be to build there.

Moreover, changing technology has created a group of specialized services that are more footloose and can present new opportunities. Many businesses can locate far away from urban areas and use telecommunications to supply essential services. Airline reservation and mail order facilities and billing operations are examples of service companies that can set up in remote locations.

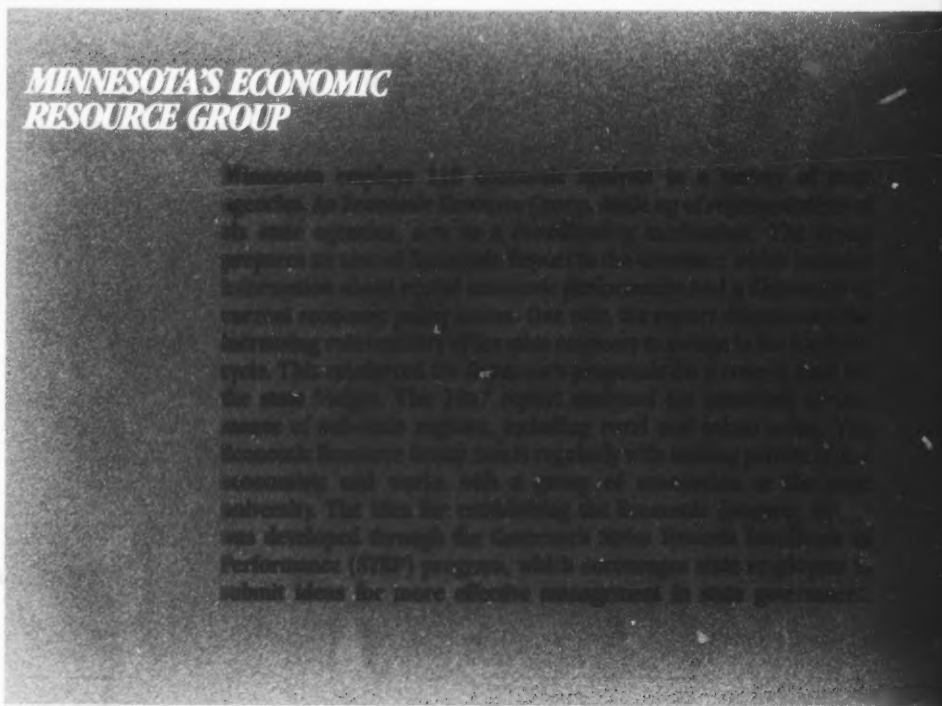
MASSACHUSETTS: THE MYLES STANDISH INDUSTRIAL PARK

State diversification policies are generally focused around infrastructure investments such as highways, telecommunications, and hazardous waste facilities; resource development, such as parks and recreation; and business services, such as venture capital, technical assistance; and many of the other state strategies discussed in Chapter Three.

Infrastructure Investment

An adequate infrastructure is a precondition for a healthy and diversified economy. States have become the dominant force in public investment for planning and financing infrastructure. Infrastructure planning is particularly time sensitive. Projects must be designed years ahead, and must be coordinated with other development. This heightens the need for careful state planning and for clear economic priorities.

When making decisions about infrastructure, states should give high priority to the opportunity for economic advancement. It is also important to consider the full range of infrastructure needs. Highways and transit, water resources, multimodal freight traffic, and other public works are traditional factors in business location decisions. Hazardous waste and solid waste facilities and telecommunications are becoming increasingly important. Just as the road was the medium of travel for the age of manufacturing, the cable will be the medium for the coming age of information.



12

STATE STRATEGY

Support Community Diversification Through More Effective Direct Infrastructure Investment and Increased Community Access to Capital.

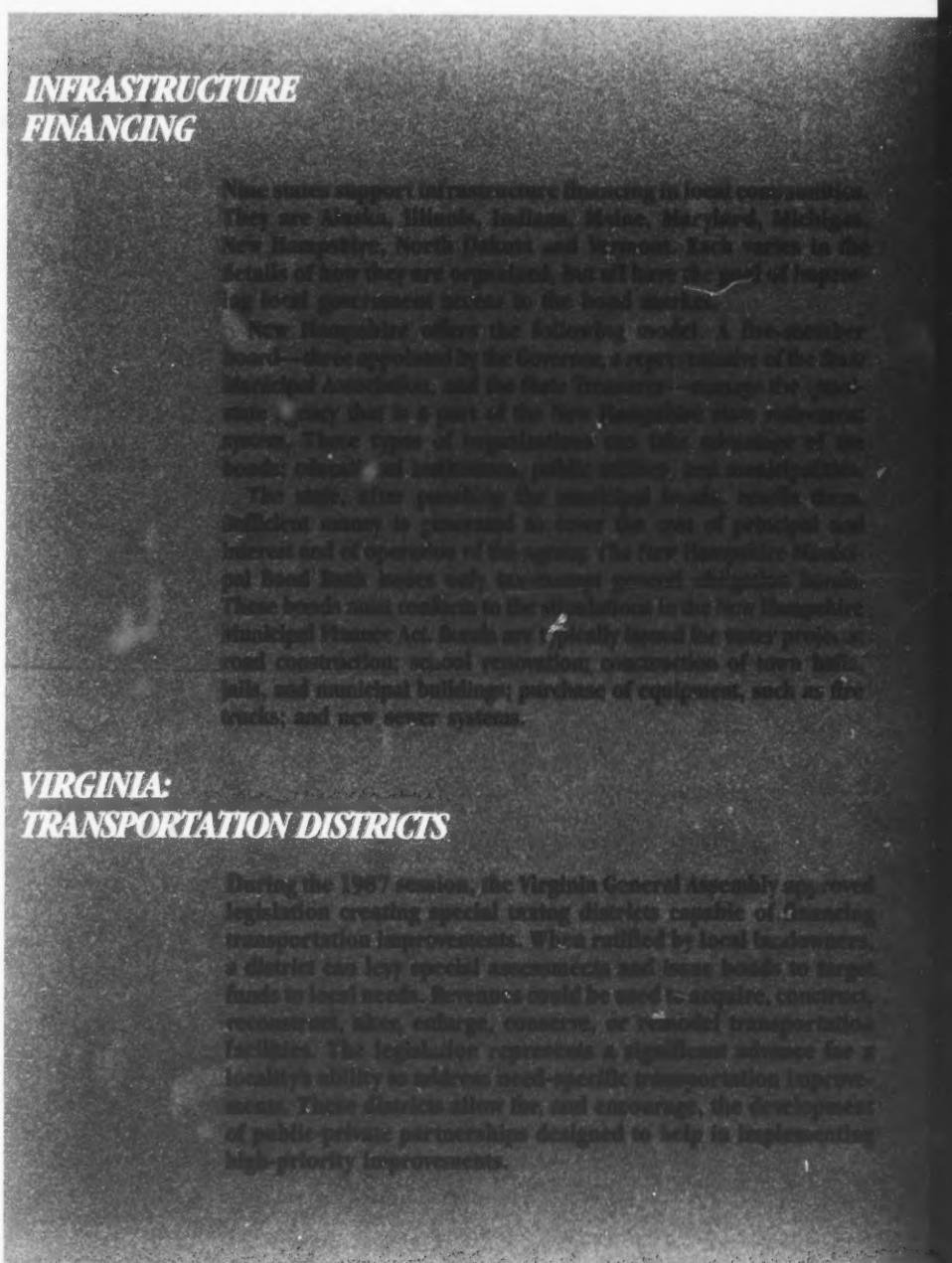
Helping communities develop and maintain basic infrastructure—the building block of productive economies—is one of the most important state roles in developing responsive communities.

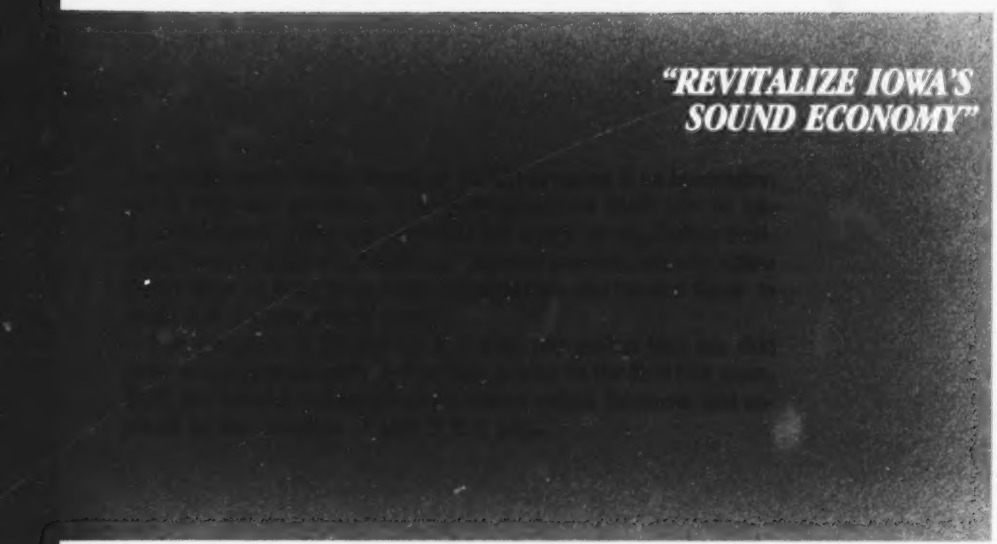
States can:

■ ***Increase Local Governments' Access to Financing.*** States can provide loans or grants to local communities for infrastructure projects. Bond banks, an arrangement for pooling general obligation bonds and revenue bonds of localities and special districts, can be established to improve access to the bond market. By pooling their obligations, localities benefit from the economies of scale in underwriting and marketing.

■ ***Encourage Localities to Use a Variety of Alternative Financing Mechanisms.*** States can provide the necessary legal framework for local jurisdictions to raise capital for infrastructure. They can allow creation of special taxing districts; authorize local option sales taxes, user fees, tax increment financing, and special assessments; and use multijurisdictional districts to solve areawide infrastructure problems. In addition, states can encourage the expansion of traditional use financing to recoup a greater share of facilities costs from developers. Broadening the financing base to include such things as utility surcharges, real estate transfer taxes, and other development-related items can provide more revenues for infrastructure.

■ ***Apply New Technology to Infrastructure Investment.*** States can make better use of new technology by using computer-aided design for structures. New and sophisticated modeling techniques can help in decisions ranging from placement of hazardous waste disposal facilities to management of traffic or scheduled routine maintenance of water mains and office facilities. States can do more by requiring assessment of low-cost alternatives to intensive capital investment.





■ ***Develop a Quick Response Mechanism for Infrastructure Investment.*** A community often requires expanded infrastructure investment to accommodate a new plant site. States can develop "fast track" procedures that give priority to strategic investments by designating a lead operating agency that could expedite and coordinate various agencies to minimize the time from request to capital investment. While this should not circumvent the normal application processes, it could accelerate it.

■ ***Secure Statewide and Regional Interstate Collaboration on Strategic Regional Projects.*** The efficiency and cost-effectiveness of regionally significant facilities, such as multi-modal transfer points at ports, airports, and regional hubs, can be a focus of regional cooperation.

Resource Development

Development of natural resources can be an important building block for many communities. Lakes, rivers, and other areas can be developed into recreational areas which stimulate tourism. Over the long-run, these amenities can encourage new firms to locate in these areas.

13
STATE STRATEGY

Support Community Diversification Through Effective Development of State Recreational, Park, Cultural, and Historical Resources.

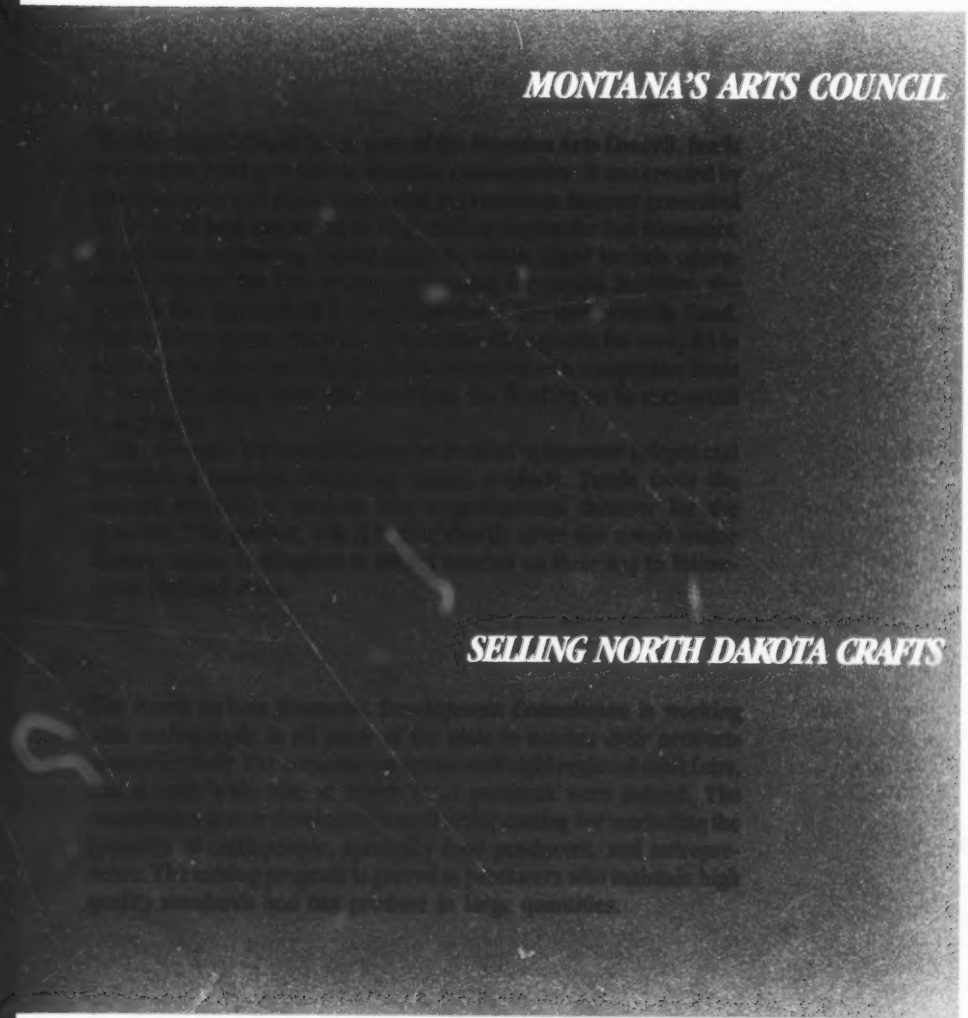
The development of natural resources is often the first step toward accelerating growth—particularly for rural America.

States can:

■ ***Create Partnerships to Enhance Recreational Development.*** Partnerships can be formed between private for-profit and non-profit entities and public agencies to enhance recreation resources, services, and facilities. Private developers, in cooperation with public agencies, can include recreation space and outdoor amenities in capital projects. Local and state government should consider incentives to private landowners to increase public access to recreational areas.

BUILDING ILLINOIS

NORTH CAROLINA: GRASS ROOTS ART



■ ***Develop A State Historic Preservation Strategy.*** State historic preservation programs should emphasize the retention, restoration, rehabilitation, and reuse of architecturally or historically significant structures and sites. States can promote efforts by local officials to incorporate historic preservation into community development strategies and projects.

■ ***Promote the Arts and Cultural Activities.*** States can emphasize the economic and cultural advantages of supporting arts and cultural activities and encourage corporations, foundations, other public interest organizations, and private citizens to provide support for arts activities. States can exert leadership in this area to stimulate corporate funding for both state and local programs.

TARGETING COMMUNITIES FOR DEVELOPMENT

The Near-Term Challenge

The primary objective of most targeting efforts is the revitalization of economies in distressed communities, whether rural or urban. However, there may also be communities of opportunity that have slow or stagnant growth but exhibit the promise for accelerated growth and job creation. States need to evaluate the potential for both distressed communities and communities of opportunity in developing and implementing economic development plans. Simple geographic targeting of resources may not always be the most effective approach. Efficient use of state resources may dictate targeting by industry or to groups of communities facing common problems. In allocating state resources, the following guidelines are important.

First, state targeting guidelines should clearly articulate economic development priorities and should be based on careful analysis of recent data. Communities, citizens, businesses, farms, and corporations must know and understand the state strategy.

Second, state funds should be targeted primarily to projects with potential long-run returns to both local and state economies. Long-term state subsidies should not be expected.

Third, any state program that targets a community, region, or industry for assistance should establish a clear process that allows participation by all interested parties—government, community, business, labor, and academia. Everyone must understand the parameters of the state's involvement.

Fourth, a state needs to think in terms of a well coordinated multi-agency approach which allows it to concentrate its scarce resources on a limited geographic area. Seldom does a community require only one type of assistance. States often need to provide a wide variety of funding and technical assistance as well as the organizational structure through which local leaders can effectively mobilize the community.

COLORADO INITIATIVES

TOURISM IN MARYLAND

TEXAS COMMUNITIES FOR ECONOMIC LEADERSHIP

14

STATE STRATEGY

Target State Resources to Help Distressed Communities and Communities of Opportunity.

State information, technical assistance, training, and service delivery coordination should be a cornerstone of economic development programs, particularly in distressed communities.

States can:

■ ***Create a Range of Community Preparedness Programs.*** These can run the spectrum from state planning grants to the establishment of community development corporations. States could also encourage communities to develop self-assessment programs as a prerequisite to state assistance.

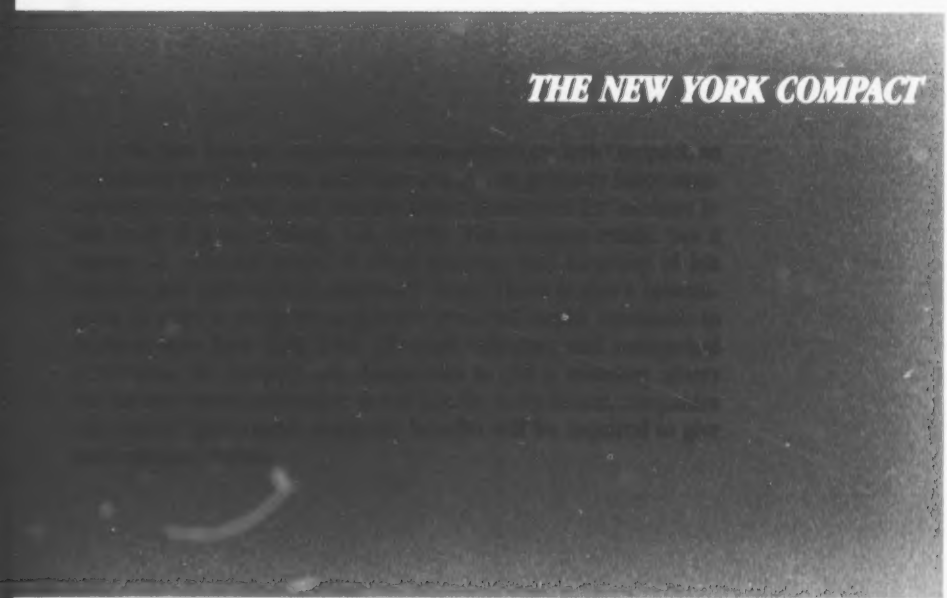
■ ***Ensure That Communities, Especially Distressed Urban and Rural Areas, Have Access to a Coordinated Set of State Services.*** States can establish guidelines for use when more than one state agency is involved to ensure that state resources are concentrated and coordinated.

■ ***Encourage the Development of Regional Approaches.*** Economic activity often crosses jurisdictional boundaries. Many times it is more cost effective to develop a strategy for a regional economy. Small communities in particular can benefit from joint efforts to promote economic development. States can encourage such regional approaches where appropriate by establishing institutional mechanisms to bring together various localities, businesses, and community organizations within a region, and by providing technical assistance and financial support for regional approaches.

■ ***Provide Training for Community Leaders.*** In addition to ensuring that local officials are fully apprised of state services, states can establish training programs, referral services, and data bases to enhance community leadership.

NEW YORK:
REGIONAL PARTNERSHIPS

MASSACHUSETTS:
A REGIONAL APPROACH



RESPONDING TO DISLOCATION

The Immediate Challenge

As the realities of an international economy and the accelerating pace of technological change come to dominate our economic life, states and localities are confronted with dislocation. A state's long-term goal is to build strong local economies. However, managing crises resulting from dislocation—finding alternatives to plant closings, minimizing layoffs, facilitating worker retraining, helping farmers avoid foreclosures, and providing services that ease the transition for workers, their families, and their communities—is the immediate challenge.

The problem is not international and technological change itself, but the fact that the benefits created by the change are not distributed evenly among the population. Trade and technology may create new job opportunities and a higher standard of living overall, but those who have been dislocated or who have not been part of these benefits cannot be ignored. States need to be prepared to address both the needs of the dislocated worker and the community.

The circumstances of dislocation differ, but a number of the principles for response can be applied in many cases.

The Earlier the Better. The most effective assistance takes place before crises develop. Communities must develop ways to identify problems before plants layoff workers or shut down. Early and reliable notification is best achieved when provided by the plants themselves. State and local officials need to build a relationship with their firms that provides mutual trust. If necessary, states may create a set of incentives that reward early notification and discourage overnight shutdowns.

Quick, Concerted, and Expert Response. The expertise of many state agencies and information about state programs must be coordinated and presented quickly to plants, communities, and citizens facing dislocations. This requires that the state have access to a variety of financial, engineering, legal, and economic resources on an immediate basis, with a designated leader to coordinate rapid response.

Common Understanding of the Problem. If requested, states can convene plant management, labor organizations, relevant community organizations, and, in some cases, important customers or suppliers, to develop a plan of action. Assistance should be premised on analysis and agreement on the problem. Moreover, this analysis and understanding of the problem must be shared with everyone involved if it is to be effective. Agreement at the onset will induce greater cooperation. The risks and costs must also be shared. For example, workers may have to accept restructured wages that are tied to productivity or profits, while management may have to revise capital investment plans.

Realistic Solutions. The aim in any strategy is to help the community find the best possible outcome, consistent with market conditions. This may mean refurbishing a plant or factory so it can continue to operate without government subsidy. In that case, everyone gains. But sometimes the only answer is the orderly closing of an outmoded and consistently non-competitive facility. In the face of this reality, worker retraining and community redevelopment assistance is needed.

Rapid Re-employment. A stable and satisfying job that allows all our citizens the quality of life they seek is the overriding goal of every level of government and every community. The goal is not just to perpetuate the life of any one plant or firm. When jobs are lost, the state and community must turn their attention to ways of putting individuals back to work quickly. Programs providing community development assistance and labor retraining, and aimed at building a more flexible and mobile economy capable of attracting new employers, must quickly be instituted to support dislocated workers and help locate new jobs.

The state serves as a catalyst in responding to dislocation. States do not impose solutions, but rather bring resources to the community so everyone can work together to find solutions. State policies do not create competitiveness themselves; they allow workers and firms to be competitive. They facilitate cooperative labor, management, and community relations, united around common goals and best solutions. Like the longer-term goal of building stable, diversified communities, the short-term management of change is often a matter of enabling others to find a solution rather than dictating one. It centers on creating the circumstances that allow our system to work.

15

STATE STRATEGY

Develop a Response Capability to Help Communities and Workers Confronted by Dislocation.

In an economy undergoing rapid change, states must be ready to help businesses and workers faced with dislocation.

States may wish to investigate a number of options including a State Adjustment Service (SAS) similar to the Canadian Adjustment Service already in operation. Such a service would help firms increase their productivity through both technological improvements and management techniques. It would also help businesses and communities deal with closures and layoffs and arrange for retraining and transitional assistance for dislocated workers.

A States Adjustment Service could:

■ ***Identify Plants and Firms in Trouble.*** The SAS would maintain a strong intelligence system to provide early warning of change.

■ ***Explore Appropriate Options.*** One key task of the service would be to help firms and, if appropriate, communities, explore a variety of options to deal with dislocation. These could include job restructuring, retooling or reorganizing a production line, retraining workers, and finding new markets.

■ ***Bring Together All Parties Involved.*** When a plant closing occurs or is about to occur, state adjustment officers could help form a local adjustment committee, involving all parties, with an impartial experienced chairperson, appointed by the committee. Committee costs could be shared.

■ ***Help Workers Find New Jobs and Skills.*** If layoff is unavoidable, the labor-management adjustment committee can be used to help workers find new jobs and new skills as soon as possible, often substantially before a plant closes.

The strength of this system lies in the local adjustment committee, which includes representatives of labor and management, the adjustment officer, and the committee chair. Together, they have the best possible knowledge of the workers who have lost their jobs, and the labor market in which they are competing. The committee should be based on voluntary rather than compulsory participation. One important committee role is to find ways to develop a shared understanding of the circumstances facing the worker, the firm, and the community. Once a committee has been formed, community leaders and other state officials with expertise in community economic development programs should become involved. These

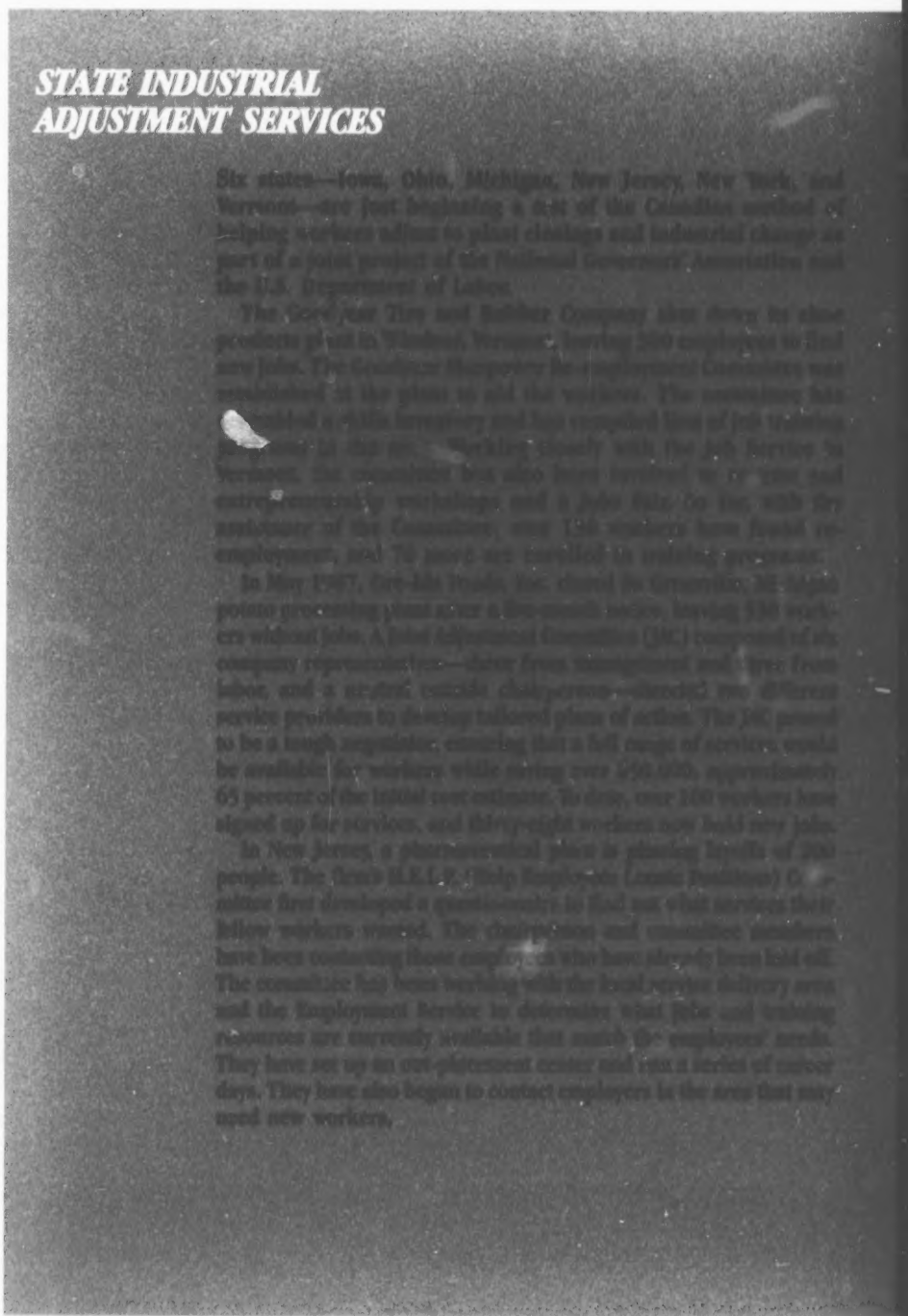
state and local leaders can help the community and the affected workers prepare for change. The solution chosen by the committee should form the basis for the next steps.

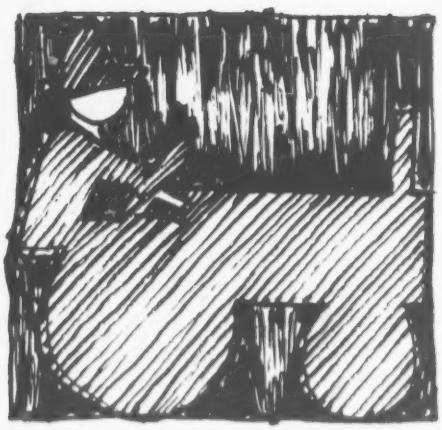
While this approach is most applicable to plant closures, the same principles could be applied to farm foreclosures and similar types of dislocation.

■ ***Consolidate All Assistance into a Single Federal-State Program.*** This could be coupled with a requirement for pass-through of a portion of federal funds to local governments in accordance with priorities established at the state level.

■ ***Expand Eligible Activities.*** Such services could include the full array of customized support for businesses described in Chapter Three as well as investments in infrastructure and state and local information and planning activities.

■ ***Target Resources.*** Priority should be given to sub-state areas facing the most severe dislocation.





MAKING RURAL AMERICA COMPETITIVE

A Special Case

In Osceola, a town of 4000 in the farm country of southern Iowa, eight new factories have opened, and manufacturing jobs have increased fivefold since 1970. Local leaders, working in partnership with the Iowa Department of Economic Development, a community college, and the utility which serves south central Iowa, have helped local businesses with an array of public investments, financial assistance, customized training programs, and problem-solving initiatives.

While Osceola and hundreds of other small rural communities have enjoyed economic stability and growth, this is not characteristic of most of rural America. Major declines and shifts within the agricultural, mining, timber, energy and manufacturing sectors of our economy have had a profound effect. Nearly half of the nation's non-metropolitan counties have either experienced unemployment rates over 9 percent, or have lost population since 1980.

The much-publicized farm crisis is part of the problem, but only part. Nearly a third of rural non-metropolitan counties are primarily dependent on manufacturing, about as many as are agriculture-dependent. After keeping pace with metropolitan America during most of the 1970s, per capita income in rural manufacturing counties increased at only half the rate of metropolitan America between 1979 and 1984. Other economic mainstays of rural America, mining, oil and gas, timber, have also been hit hard. And to exacerbate the situation, most rural areas are not attracting the fast-growing sectors of our economy like technology and business services industries. Although the evidence is not conclusive, it appears that many rural areas have become less accessible because of transportation deregulation.

This dichotomy in rural America—stability and growth versus distress and decline—exemplifies the opportunities and challenges for states in creating jobs and promoting economic growth in rural America. Recognizing these changes and the importance of rural America to the health of the nation, the Task Force on Jobs, Growth, and Competitiveness gave special attention to the needs of the rural regions of this country. The task force went to Iowa for two days to learn more about the concerns and problems faced by these regions.

The development strategies summarized here have considerable applicability to rural America. However, the economic base of rural America, although very diverse, is also different from that in most metropolitan areas. Development strategies must reflect these differences. In most rural areas, wages are lower and citizens are more dependent on the production and use of natural resources. Economic opportunities are not as great in these areas because of the limited local market and the lack of infrastructure and other support systems so important in stimulating economic growth.

The following steps represent a practicable guide to developing rural areas:

"The economic policies that have been carried out by the federal government have been aimed toward providing an overall economic improvement for the United States. The well-being of rural areas of this country has been sacrificed in the process. Agriculture is in the midst of economic conditions not seen since the 1930s. Rural businesses and communities dependent on agriculture have been devastated at the same time. At a time when rural development activities are crucial to rural areas of Americans, there has been a retreat from these types of initiatives by the federal government.

We must, first, recognize that there are needs of rural areas that are not being adequately addressed, because of the limitations of local and state funds. An alliance between local leadership, state government, and federal government must be forged to deal with the urgent needs of rural areas of this nation. Coordination and cooperation between the state and federal entities working for the development of rural areas is necessary, if we are to succeed in revitalizing rural America."

GEORGE A. SINNER
Governor of North Dakota
1987 Testimony before the Committee on Agriculture, Nutrition, and Forestry, U.S. Senate

CALIFORNIA'S RURAL RENAISSANCE

California's recently enacted Rural Renaissance program provides $8 million for state grants to counties to promote economic development in rural areas. The grants can be used for market studies, advertising, and marketing activities. The Rural Renaissance legislation also authorized $50 million for capitalizing a new infrastructure grant and loan program. Loans are available in larger amounts than in most other programs and can be directed to projects that would help create new private sector jobs.

ARKANSAS: FAMILY FARM LOAN PROGRAM

The Arkansas Family Farm Loan Program seeks to address some of the near-term problems of family farmers by using $10 million in state pension funds. Below-market-rate loans are available to Arkansas farmers for up to ten years at fixed rates. The program is funded by the Arkansas Teacher Retirement System and administered by the Arkansas Development Finance Authority. It funds FmHA eligible loans to finance land acquisition; construction, purchase, or improvement of farm buildings and facilities; purchase of farm machinery, equipment, inventory, livestock, poultry, and fish; payment of annual operating expenses; and soil and water conservation.

1. Establish a Rural Development Strategy

States must give special attention to charting the opportunities for development in rural economies. The first step in customizing a competitiveness strategy is a clear understanding of the state's rural economy, identifying the critical industries, understanding their economic structure, and assessing the national and global economic trends that may influence the rural economy.

While a state's rural strategy can take many different directions, it should include a plan for economic diversification, the provision of transitional services to hard-hit areas of the state, and identification of key infrastructure needs. Following this process, it will be much easier to decide how to target the investment of public resources.

2. Invest in Human Resources and Physical Capital

State governments finance a large share of public investments in human resources and infrastructure. Having a sound basic infrastructure of roads, waterways, and wastewater facilities is important to the economic vitality of an area. But investing in infrastructure does not assure that economic development will occur. For example, officials in Osceola, Iowa, told the task force that a new interstate did not stimulate growth until the town leaders mobilized and implemented a strategy. Investments in infrastructure must be strategic—tied to a strategy for competitiveness, linked to local investments in economic development, and monitored to determine whether the investments are achieving the desired outcome.

Often overlooked in the discussions of infrastructure is the role of telecommunications. In a knowledge-based economy, firms require first-class telecommunications services, but in some rural areas the conversion to new fiber optic systems, for example, is proceeding slowly. States should promote private investment in upgraded or new telecommunications infrastructure in both rural and metropolitan areas. This could encourage information-based firms to consider locations in rural areas which would not require other types of costly infrastructure investments.

Investments in human resources are an even more critical part of an agenda for competitiveness. Here also, investment strategies must be geared to local economic realities and opportunities. Rural America is very diverse, and investment strategies must be customized to address local conditions. Some rural areas already enjoy good elementary and secondary education; the issue here is maintaining a high level of investment while taking steps to improve quality. State and local training programs can be designed to address the skill levels of the local population and the skill requirements of industries that will develop in the area.

3. Promote Entrepreneurial Development

There is vitality in Osceola, Iowa, and in many other rural communities. This can be attributed to a number of factors including a skilled and adaptable workforce, and a well-established tradition of self-employment in small business and farming that contributes to a rural culture of self-reliance and entrepreneurship. Strong allegiance to local communities, rural amenities, and lifestyles also motivate residents to stay and create their own job opportunities and encourage former residents to return home to create new enterprises.

State and local governments should build on the spirit of entrepreneurship present in rural communities. Many farmers and owners of small businesses have experience in building or operating new enterprises. But they may lack specialized technical skills or access to venture capital. Rural strategies can address these gaps by developing specialized financial and managerial assistance programs for rural areas and targeting them to expand the local economy.

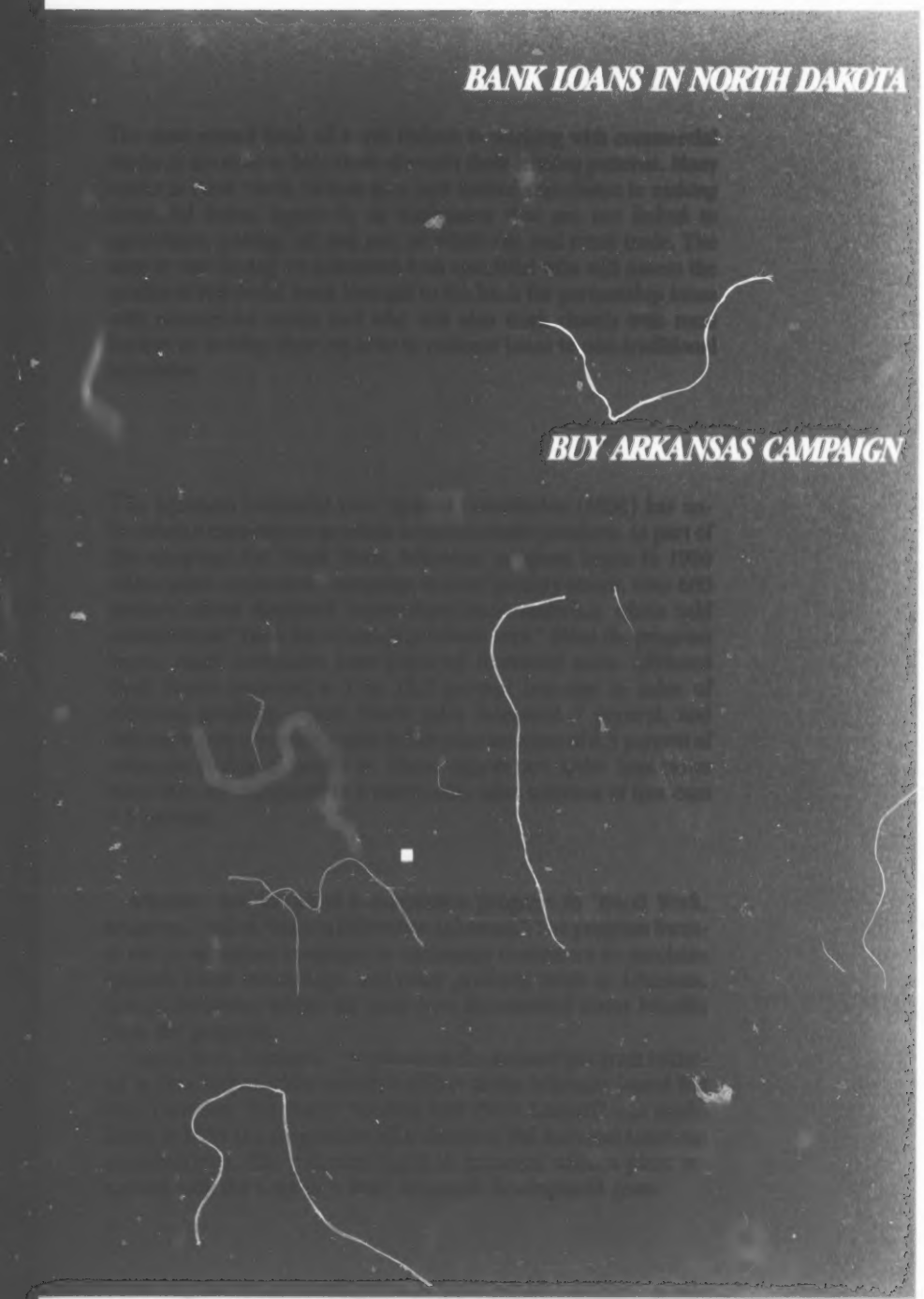
4. Increase Access to Financing

Attracting capital investment in rural America is one of the most difficult challenges facing state and local officials. Much of rural America is served by small financial institutions that lend primarily to farmers and retail merchants. Many rural banks lack experience and expertise in lending to manufacturers, especially in new or high-risk industries. However, even if they had the expertise, their lending to manufacturing firms and service industries would be constrained by loan limits and by the absence of sufficient collateral for the loans.

States can step in as a substitute or can subsidize local lenders. But rather than shouldering the burden directly, the best strategy is to help local lenders overcome these problems. A rural banker who participated in the task force hearing suggested that states and state banking associations work together on the problems of non-traditional financing. States may also want to guarantee or help create a secondary market for non-traditional loans by rural banks. State regulatory agencies may be able to adopt policies which encourage sound lending to non-traditional borrowers.

A similar problem can arise with federal financial assistance to businesses in rural areas. Bankers, local government officials, and business leaders may lack technical expertise in preparing applications for federal aid. Here again, states can help by providing technical assistance either directly, with state personnel, or indirectly, by supporting or training local specialists.

The problem of finding financing is especially difficult for new firms starting up in rural communities. Venture capital tends to be located in major money centers, and many venture capitalists prefer to invest in firms that are located nearby. States can help by investing their own resources in venture capital funds, by encouraging private venture capitalists to invest in rural areas, and by linking investors with entrepreneurs.



5. Develop Local Leadership

Community leadership is central to rural economic development. Without strong local leadership, rural economies will not grow. One of the clearest findings of the task force's Iowa hearing was the vital role played by community leaders. Although one can easily identify several factors which will contribute to a vibrant rural economy—such as good infrastructure, location near a metropolitan area, or the presence of a college or university, these are usually insufficient in themselves. Vigorous and persistent leadership is equally important to develop a diversified economic base. States cannot create local leadership, but they can help create conditions in which effective local leaders will emerge and operate.

Governors can provide the leadership needed to take a fresh look at the renewal of rural America. As chief executives, with responsibility for a broad range of state policy, they can cut across old allegiances and lines of thought. They can help refocus state energies, serving as an important link in building a new state-federal rural development partnership. Rural America is mobilizing itself to deal effectively with economic change. Governors are ready to lead this revitalization.

CHAPTER FIVE
THE FEDERAL AGENDA

The challenge ahead of us is clear: we must ensure that Americans have good jobs by seeing that the economy remains competitive. States cannot do this alone. The federal government needs to provide a balanced and stable economic framework, both domestic and international. As the world economy becomes more integrated, this will not only become more difficult, it will become more important.

A federal agenda to improve our competitiveness should include four major strategies:

- Create a fair and stable domestic economic environment.
- Promote a stable international financial framework that will contribute to free trade and high growth.
- Establish more equitable trade relationships.
- Provide more effective regional targeting and flexibility in federal programs.

1
FEDERAL STRATEGY

Create a Fair And Stable Domestic Economic Environment.

The federal government can use its spending and taxing decisions, as well as the monetary policies of the Federal Reserve Bank, as tools to create a stable economic framework. Such policies and decisions influence interest rates, inflation, real growth, and unemployment. They also help maintain confidence in U.S. banking and other financial systems.

A more effective fiscal and monetary policy requires the federal government to:

■ ***Reduce the Federal Budget Deficit.*** The projected 1987 deficit of $174 billion must be eliminated over the next five years. This should decrease interest rates, and create more favorable exchange rates, thus allowing U.S. goods and services to compete effectively in the world economy.

As part of the deficit reduction strategy, the federal government must renew its efforts to enforce our present tax laws. The tax compliance rate in the United States is currently about 80 percent. We can increase our revenues and begin to reduce the deficit by more vigorous enforcement of current laws.

■ ***Enhance the Private Savings Rate.*** Not only has the federal government substantially increased its borrowing, but private savings have also been low, thereby contributing to high interest rates. Private savings in 1986, as a percentage of GNP, dropped to 2.8 percent, the lowest in thirty-seven years. This is substantially lower than many of our European trading partners. The federal government should consider additional incentives for savings and disincentives for consumption, as well as a national awareness program to increase the savings rate.

"You know this trend of returning responsibility to the states from Washington will continue. We must continue to be a leader in demonstrating that given the opportunity and flexibility, we and our sister states can reduce the net overall burden of government on our citizens while accepting an expanded state and local role."

JOHN H. SUNUNU
Governor of New Hampshire

"It is time we vigorously re-assert America's national interest. America needs to adopt a long-term strategy for dealing with international trade. Such a strategy should focus not only on trade, but all issues related to America's ability to compete in today's global economy."

NORMAN H. BANGERTER
Governor of Utah

2

FEDERAL STRATEGY

Promote a Stable International Financial Framework That Will Contribute To Free Trade And High Growth.

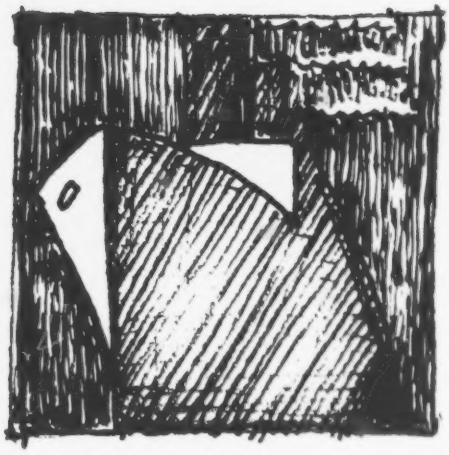
Uncertainty about future exchange rates and the ability of certain nations to repay their international debt has been a deterrent to trade and a restraint on economic growth.

The federal government can:

■ ***Coordinate Monetary And Fiscal Policies With Our Major Trading Partners.*** Differences in economic growth rates and interest rates across nations are important in determining exchange rates. The United States needs to coordinate monetary and fiscal policy with other nations, particularly Japan and Western Europe. This is not only necessary to help maintain our competitive position, it is critical to the stability needed to maximize the benefits of international trade.

At the Tokyo Economic summit, the leaders of seven of the largest countries agreed to improving the flexibility of the international monetary system, in order to minimize exchange rate fluctuations. This was an important step forward, but the international community needs to focus on developing specific policy steps to reduce exchange rate variability. These nations may also need to agree on other types of policy coordination measures, such as GNP growth.

■ ***Assist In Managing The Debt Of Less-developed Countries.*** Mexico, Brazil, and several Third World countries have recently indicated that they are unable to pay back large international loans. The Latin American debtor nations currently have a total external debt of more than $518 billion, with yearly interest payments totaling $58.5 billion. Their trade surplus is only $8.5 billion. This debt repayment limits the overall growth rate of these nations and restricts their ability to purchase U.S. exports. The federal government, through international organizations, such as the World Bank or International Monetary Fund, can forge agreements to restructure this debt, allowing these countries to pay off their indebtedness while maintaining an acceptable growth rate. Over the long run, reductions in Third World debt are critical to increased U.S. exports.



3

FEDERAL STRATEGY

Establish more equitable trade relationships.

The United States must have more access to export markets. Trade barriers continue to exist for many products from steel and automobiles to electronics and textiles. Also, the export targeting of the U.S. market needs to be addressed.

The federal government should work to:

■ ***Broaden the scope of a new GATT agreement.*** The new round of the General Agreement on Tariffs and Trade (GATT) negotiation provides a good opportunity to develop a multi-lateral response to the export targeting strategies of some countries. These negotiations may also create an opportunity to extend rules of commercial relations to areas previously exempted from, or not covered by, GATT, including agriculture, services, direct foreign investment, and intellectual property rights. The U.S. should also work on a bilateral basis to improve trade relationships that cannot be accomplished through the GATT.

■ ***Review Export Licensing Procedures.*** Not all trade barriers are foreign. Some, such as export licensing, are domestic. The current system of export licensing is designed to prevent export of strategically sensitive technology, but the present decision process is cumbersome and marked by disagreements between the Departments of Commerce and Defense. For example, the General Accounting Office recently indicated that the Department of Commerce did not concur with 65 percent of Department of Defense's denial applications for a sample period in April 1985. The U.S. trade balance for high technology items has fallen more than $25 billion during the period 1980–1986.

While it is difficult to determine how much of the decline is due to licensing problems, they have clearly been a contributing factor. Almost 40 percent, or about $62 billion of all exports of non-military manufactured goods in 1985, required licensing. A recent survey indicated that 52 percent of exporters believe they lose sales as a consequence of licensing requirements. The problem is more pronounced for small businesses.

Recently a manufacturer of CT scanners, an important tool in medical diagnostics, lost a prospective sale to China. The reason: a West German competitor promised immediate delivery. The U.S. firm could not make such a guarantee.

The federal government must take responsibility for ensuring that trade agreements and practices promote the free flow of goods in the international marketplace. Patterns of unfair or one-sided trade behavior should be countered with every legitimate means available to the federal government and generally accepted rules governing this area should be developed through international negotiation.

Policy adopted by the National Governors Association

4

FEDERAL STRATEGY

Provide More Effective Regional Targeting And Flexibility In State Programs.

A more effective federal/state partnership will increase national competitiveness.

The federal government can help:

■ ***Minimize Economic Disparities Across States And Regions.*** Regional economic disparities raise problems not only for the people, communities, and regions directly affected but for the entire nation. In recent years, nearly every section of the country has been affected by severe economic distress. Less than ten years ago, it was basic manufacturing in the Northeast and Midwest. Today it is agriculture, mining, and oil in the West, Midwest, and South. A number of our current federal programs could be more effectively targeted to those areas that can benefit most, particularly rural areas and inner cities.

We also need to take a fresh look at how rural America is faring in the new international economy and how federal and state programs affect rural communities. While rural areas contain a quarter of the nation's population, they are diverse and geographically dispersed. For this reason, a consistent rural policy has not been formulated. The development of a national rural development strategy should become a high priority for the federal government. Such a strategy should emphasize intergovernmental cooperation and federal/state partnership.

■ ***Create A Flexible And Responsive Employment System.*** The states and the federal government should explore the advantages and disadvantages of altering the unemployment insurance program to use a portion of the funds to finance retraining, relocation costs, and entrepreneurial initiatives. European countries have provided lump sum payments for individuals to start their own businesses and for some this has been successful. The experiences of the thirteen states that have been experimenting with varying schemes to allow employees to reduce hours worked and receive partial U.I. payments provide valuable lessons for making the program less rigid. Consid-

eration should be given to shared financing of the program by employers and employees as is the case in New Jersey and most European countries. Additionally, the advantages of vesting some portion of the employee account for the individual, as is done with pension accounts, should be explored.

Given the new realities of the global economy, state and federal policymakers may want to undertake a coordinated analysis and study of the portability of health and pension plans. We may also need a study of the value and feasibility of revising unemployment insurance benefits to include payments into employee health insurance and retirement plans to maintain coverage on a current basis while the individual is between jobs.

Given the great diversity in employee benefit packages and the varying circumstances in which employees find themselves, it may make sense to allow employees to design their own benefit packages and to determine how employer contributions will be allocated among protections being purchased. Some may emphasize health protection, others pension. More study is needed in this area.

■ ***Redefine the Federal/State Partnership.*** A number of federal and state programs could be refocused to enhance their overall contribution to competitiveness. Several examples are:

■ **Export Development.** The federal government can provide information about foreign markets, export trade opportunities, and patterns of international trade much more efficiently than the separate states. Therefore, the federal government should expand its efforts in "trade intelligence" and should transfer to the states the responsibilities for providing technical assistance to exporters.

■ **Small Businesses.** The federal government and the states both provide direct financial and technical assistance to small businesses. There are many creative initiatives at the state and local level. Federal resources could be reallocated to support these initiatives, transferring some program monies to the states to be spent consistent with state economic development strategies. The joint federal/state small business development corporations provide one example.

Within the public sector, priority should be given to the sorting out of roles between the federal and state governments, the effective implementation of its programs by each level of government, coordination of state and federal trade efforts, and consultation and coordination between federal and state officials. The United States can effectively address trade imbalances and respond to overseas opportunities only when the two levels of government work closely together to improve our competitive position in world commerce.

Policy adopted by the National Governors Association

■ **Technology.** The federal government should continue to have a lead responsibility for financing research and development. These benefits cross state lines and have a national focus. There is also a need for closer coordination of federal efforts with state initiatives to build a strong research infrastructure and to accelerate the commercialization of research. Recent federal initiatives, such as the Federal Technology Transfer Act of 1986, encourage cooperation between federal, industry, and state activities. But cooperation could be further enhanced. The federal government could:

- Appoint state officials to advisory boards for federal agencies that invest in research and development.
- Involve state officials in merit review processes for major federal investments, such as engineering research centers and basic science and technology centers.
- Establish a clearinghouse for sharing information on federal and state technology initiatives.

Congress and the administration must place the competitiveness issue at the top of their policy agendas and move forward quickly. States can lead the way in making workers more productive, workplaces more efficient, and communities more responsive, but we cannot reach our goal of full competitiveness until the federal government acts to stabilize our domestic economy and establish fair trading relationships.

A VISION FOR THE FUTURE

Governors are already implementing many of the suggestions contained in this report. They are providing vision and leadership that will take us into the future.

They have recognized that the old economic debate, Sunbelt versus Frostbelt, was a narrow, inward-looking approach. It is being replaced by a new outward-looking global perspective. This new vision focuses on American know-how, innovation, and adaptability.

Governors are exercising the aggressive, creative leadership needed to develop a new international awareness and to prepare our citizens for new realities of the 21st century. They are investing in quality jobs, and taking the lead in financing and reforming education and training initiatives. They are providing new funds for targeted research and development and for technology transfer. They are supporting new programs for physical infrastructure and for increased fiscal stability of communities.

Governors are forming new partnerships with the private sector. In many areas, these new partnerships have become far-reaching catalysts for change, providing forums for new ideas and new approaches, for breaking down institutional barriers to action.

The Governors know that a thriving, well-educated, productive, and independent citizenry is the best guarantee for a strong future, and they are committed to protecting that future. They are committed to productive policies and to productive people.

They are committed to making America work for all of its citizens.

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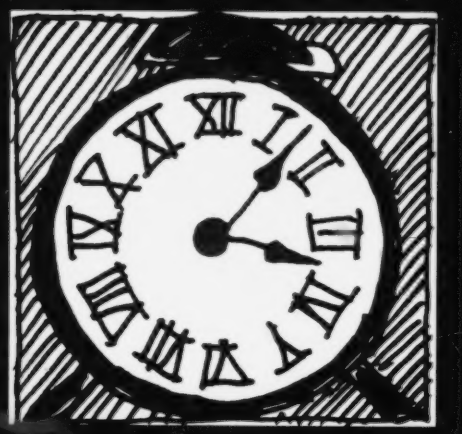

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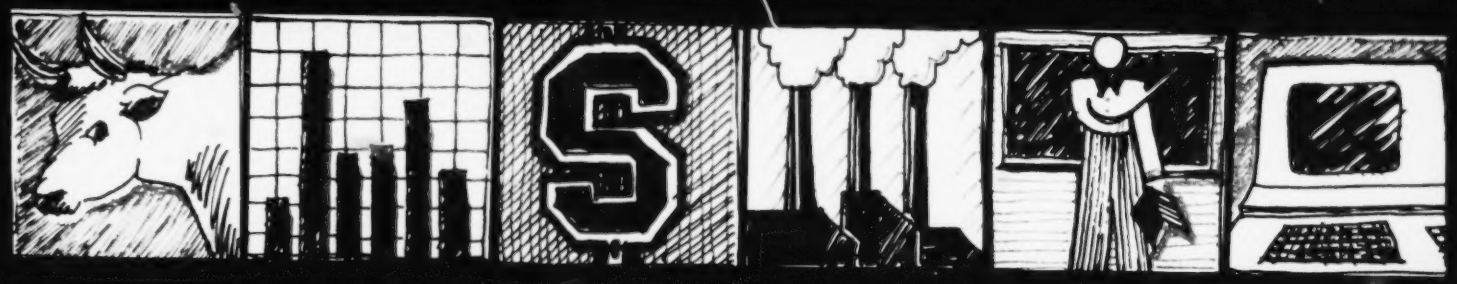

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